Simonds Group

Annual Report 2018

BUILD WELL LIVE WELL

FOUNDER'S MESSAGE

Dear Shareholder,

We are proud of our heritage, having started Simonds homes 69 years ago from small but humble beginnings. Since 1949, and with the support of many people, we have contributed to helping families achieve the ultimate Australian dream and have built a record of over 35,000 homes. It gives me a great sense of pride and satisfaction to be doing what we do as a volume builder, to remain current but innovative in a fiercely competitive industry.

As Founder of Simonds, I have continued my involvement with the Simonds Group as a consultant and advisor to the Board. The Simonds Group is well governed by its Board of Directors and steered by the recently appointed Chief Executive Officer and Managing Director, Mr. Kelvin Ryan.

Iain Kirkwood is the Independent Chair. He brings experience as a corporate Chairman with considerable practical and operational expertise gained from a successful business career spanning 38 years across a range of industries. Delphine Cassidy and Neil Kearney are both independent Non-Executive Directors, and Piers O'Brien and Scott Mahony sit on the board as Non-Executive Directors. Both my son, Mark Simonds and grandson, Rhett Simonds, remain on the Board.

It has been my pleasure to have grown this business from its humble beginnings in 1949 and witness what it has become today.

Yours sincerely,

Gary Simonds
Simonds Founder
and Senior Advisor

Build well, Live well

We are committed to designing and building homes that are built well and enable families to live well.

Contents

CHAIRMAN'S MESSAGE

Dear Shareholders,

The Board is pleased to report substantial progress in Simonds transformation since last year. The new Board's immediate strategy was, and remains, to drive strong margin growth and improved profitability. The heavy focus on 'Back to Basics' will drive shareholder value and total returns.

Kelvin Ryan, our new Managing Director and Chief Executive Officer who joined us at the beginning of March, is driving margin growth and profitability through the 'Back to Basics' approach. The Board is delighted with his commitment and aptitude in leading this drive to cement the strength of the Simonds brand in the volume home-building industry.

Kelvin and his substantially new, invigorated and experienced executive team are determined to focus on building shareholder value through growing the business, improving its operational and capital-use efficiency, and leveraging the famous Simonds brand, while maintaining our company's rigorous emphasis on safety.

Our results for the year record that overall revenue rose by 3% in 2018, to $605.2 million, net profit after tax (for continuing operations) of $4.8 million was more than double the $2.1 million earned in 2017 and net debt reduced to $1.1 million.

These results are an encouraging start but, needless to say, the directors look forward to ongoing, significant improvements which will deliver growth in Simonds shareholder value and sustainable total returns.

The Directors have determined that no dividend will be paid in respect of the 2018 financial year.

The Simonds brand established almost 70 years ago still resonates. It carries with it the promise of a family home built to a high-quality standard, delivered on-time, backed by a safe and efficient building process. That is the fundamental strength of our business which enjoys a leading market position.

The Board looks forward to a strong performance in FY19.

Iain Kirkwood
Chairman

CEO + MANAGING DIRECTOR'S LETTER

As our founder Gary Simonds has always said, "at Simonds we have the privilege to be part of the experience for families moving into their own home". Similarly, in our Education business, we deliver nationally-accredited Building and Construction qualifications to those looking to enter the industry or advance their careers and take on more senior roles. I have been impressed by the commitment and dedication of our people in delivering quality homes and outcomes for our customers and students.

I have been pleased to see the progress made in the business improvement program already underway. This will ensure the Group is well positioned for future growth. During the 2018 financial year we have streamlined our business to operate on a much healthier and more sustainable financial base, and with a structure and organisational culture that supports ongoing improvement in profitability.

Since joining the Group in March 2018, our focus has been directed towards:

- Actioning the already established 'back to basics' program, which is aimed at improving margins, establishing general business disciplines and restoring the health of the balance sheet;
- Rebuilding the executive management team to focus on growth and executing the delivery of the strategic plan;
- Positioning the business to unlock opportunities across the board, through its product range, sales and marketing initiatives and partnering with key stakeholders; and
- Developing a comprehensive strategic plan based on a 'grow and prosper' principle to deliver sustainable outcomes and take the business forward over time.

We are continuing to build on our strong base by developing new product in the Homes business and establishing better process discipline across the business.

Our Education business, Builders Academy Australia (BAA), has continued to deliver high quality nationally-accredited Building and Construction qualifications in high skills needs areas. With a high focus on regulatory compliance in this sector, BAA has continued to ensure strong governance, management systems and processes are in place across its operations whilst aligning all activities with the needs of the Building and Construction industries. BAA has been successful in renewing its existing state government funding contracts and secured a new federal government contract.

We have streamlined the overall business, with the sale of our development business, Hub Property Group, in December 2017.

Our core purpose is to leverage on the strength of the Simonds brand to become a leader in Australian home building, recognised for high-quality, good-value homes that are built well.

Safety

The Simonds Group has continued to strengthen our safety systems over the last reporting year. The main objective in our safety program is to recognise safety as a core value across all areas of the business, that results in a positive safety culture and a healthy, engaged workforce. To achieve this, we have refined our safety management system to ensure that it remains highly visible in our Company and continues to meet and reflect current regulatory requirements. We remain committed to safety in the home building sector, and we have a voice in industry through our involvement in the Volume Builders Safety Alliances in each state, and our active participation in industry programs around the country with the regulators.

FY18 Results

The Group delivered earnings before interest, depreciation and amortisation (EBITDA) for the 2018 financial year of $13.7 million from our continuing operations, an increase of $3.6 million or 35.6% on the prior period comparative.

Revenue in the Homes business was $23.2 million up on the prior comparative period on the back of higher site starts (2,500 in FY18 compared with 2,391 in FY17). This more than offset the $2.2 million decrease in revenue generated by the Education business during FY18.

Gross profit for the Group increased 5.9% on prior comparative period, reflecting shift in product mix and strengthening of cost control measures.

Net operating cash flows for the Group were $8.7 million, an increase of $1.6 million or 23.1% on FY17, driven by improvements in results and working capital management.

The Group returned to a positive net asset position at 30 June 2018, with net assets of $1.0 million, a $4.1 million improvement on 30 June 2017.

During the financial year our net debt was reduced by $3.9 million, mainly driven by improved operating results and working capital management. Our headroom under the Group's existing CBA facilities including cash and bank balances was $35.8 million at 30 June 2018.

Delivering Shareholder Value

The Company is now well positioned to continue to capitalise on strong margin and profitability improvements, as well as introducing new initiatives to underpin continuing improvement in financial results and future growth.

We are striving to increase our site starts and improve our operating margins. The business continues to improve its market penetration, sales and ultimately, its site starts, by strengthening relationships with land developers, locating display homes in major growth zones, consolidating its product range and continuing to innovate and release new product.

Simonds Homes are abreast of the market and remain innovative in our product delivery. In September 2018, we launched the movement to Wellness both in the workplace and in each home built in Victoria. We have created a significant point of difference in the industry. We look forward to expanding the Wellness initiative across each state.

Acknowledgements and thanks

I would like to acknowledge and thank my Board colleagues, our loyal and talented staff, trades, suppliers, trainers, industry partners and customers. I also thank you for your loyalty as shareholders.

I am confident our strategy will ensure the Simonds Group is well-placed to deliver profitable growth in FY19 and beyond.

Kelvin Ryan
CEO + Managing Director

BOARD OF DIRECTORS

From left to right Scott Mahony, Rhett Simonds, Delphine Cassidy, Mark Simonds, Neil Kearney, Kelvin Ryan, Iain Kirkwood and Piers O'Brien.

Business Segments

Demand for quality homes remained strong in FY18, with revenue and margin improvement in the Simonds Homes business. Margins were improved through changes in the product mix, strengthening of business disciplines to minimise product customisation and strengthening of cost control measures.

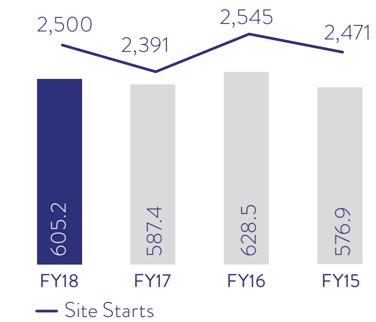
We remain focused on building and improving our strategic relationships in partnership with land developers, the location of display homes in key growth zones, consolidation of our existing product range and the release of new product.

Builders Academy Australia (BAA) recorded strong course enrolments and successfully renewed its existing state government funding contracts and secured a new federal government contract. The extension of course durations, along with the shift in students undertaking dual courses to single courses, has had an impact on both results and the number of students graduating.

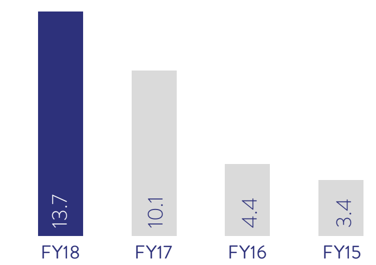
During FY18 the Group divested its investment in the Hub Group.

FINANCIAL SUMMARY

Revenue ($m)[1]



EBITDA ($m)[1]



1 Revenue and EBITDA for the period FY15 – FY16 have been adjusted to exclude the Madisson business, which has been presented as discontinued operations.

2,500
Site starts
Up 109 or 4.6%

$605.2m
Revenue
Up $17.8m or 3%

$13.7m
EBITDA
Up $3.6m or 35.6%

$3.8m
NPAT
Up $3.6m or 1,800%

$133.3m
Gross profit
Up $7.4m or 5.9%

Simonds Group

- Revenue in the Homes business increased 4.1% on prior period comparative on the back of higher site starts.
- Gross Profit improved by 5.9% due to better margins, changes in product mix and stronger cost controls.
- Strengthening of business rules has continued to translate into improved margins.
- Starts increased as a result of the Group's strong pipeline and focus on consistent delivery of site starts each week.

FINANCIAL REPORT

DIRECTORS' REPORT

The directors of Simonds Group Limited ('the Company") submit herewith the annual financial report of the consolidated entity consisting of the Company and the entities it controlled (the "Group") for the financial year ended 30 June 2018. To comply with the provisions of the *Corporations Act 2001*, the directors' report as follows:

Information about the directors

The names of the directors of the Company during or since the end of the financial year are:

Name	Date appointed	Current Position
Current Directors		
Iain Kirkwood	20 September 2017	Independent Non-Executive Director and Chairman
Kelvin Ryan	5 March 2018	Chief Executive Officer (CEO) and Managing Director
Neil Kearney	20 September 2017	Independent Non-Executive Director
Delphine Cassidy	20 September 2017	Independent Non-Executive Director
Rhett Simonds[1]	20 April 2016	Non-Executive Director
Mark Simonds	20 September 2017	Executive Director
Piers O'Brien	20 September 2017	Non-Executive Director
Scott Mahony	20 September 2017	Non-Executive Director
Former Directors		
Vallence Gary Simonds[2]	24 May 2010	Former Non-Executive Director and Chairman
Susan Oliver[3]	6 October 2014	Former Independent Non-Executive Director and Deputy Chair
Michael Humphris[4]	29 March 2017	Former Independent Non-Executive Director
Matthew Chun[5]	25 September 2014	Former CEO and Managing Director

1 Rhett Simonds was Interim CEO from 7 October 2017 to 4 March 2018.

2 Vallence Gary Simonds retired from the Board on 20 September 2017.

3 Susan Oliver resigned on 20 September 2017.

4 Michael Humphris resigned on 20 September 2017.

5 Matthew Chun stepped down as CEO and Managing Director effective 6 October 2017 by mutual agreement with the Board. Mr Chun remained employed by the Company until 12 January 2018.

DIRECTORS' REPORT (CONTINUED)

The particulars of the directors are as follows:

Name	Experience and Directorships
Iain Kirkwood	• Iain was educated at Glenalmond College in Scotland and holds a Master of Arts from Oxford University. Iain is a Fellow of CPA Australia (FCPA). • Iain is an experienced corporate chairman and has worked as a senior executive and Non-Executive Director across a range of industries, including auditing, resources, manufacturing and latterly healthcare in Australia, the USA and Britain. • Iain is Chairman of Bluechiip Ltd, former Chairman of Novita Healthcare Limited and has held Non-Executive Director roles with Medical Developments International Ltd and Vision Eye Institute Ltd. • Iain began his business career with Arthur Andersen & Co in London and went on to hold several senior financial and general management positions in Woodside Petroleum Ltd, Santos Ltd, Pilkington Plc, F.H Faulding & Co Ltd and Clinuvel Pharmaceuticals Ltd.
Kelvin Ryan	• Kelvin holds a Master of Technology Management Degree from Griffith University and Bachelor of Education from WACAE Nedlands. • Kelvin possesses extensive experience in the volume home building industry as CEO of BGC Residential from 2009 until 2017 and has a strong awareness of the issues facing the industry. • Kelvin has extensive experience in building industries. • Kelvin also has significant experience as a senior executive in mining and manufacturing industries both in Australia and internationally.
Neil Kearney	• Neil holds a Bachelor of Economics from Monash University, has completed the Advanced Management Program at INSEAD and is a Graduate of the Australian Institute of Company Directors. • Neil chairs the Company's Audit & Risk Committee. • Neil has held senior executive roles in Australian and international companies, including Goodman Fielder Limited and National Foods Limited (including as Chief Financial Officer & Chief Strategy Officer). • Neil is currently Chairman of Huon Aquaculture Group Ltd, Chairman of Felton, Grimwade & Bosisto's Pty Ltd and a Non-Executive Director of Brainwave Australia. • Neil's previous directorships include Warrnambool Cheese and Butter Factory Company Holdings Limited and National Foods Limited.
Delphine Cassidy	• Delphine is an accountant with over 15 years experience specialising in financial, accounting and treasury roles. • Delphine has become an investor relations expert, working as a senior executive in this field for a number of ASX 200 Companies. • Delphine has been a member of the Australasian Investor Relations Association (AIRA) Issues Committee and the ASX Issuer Services Working Group. • Delphine is currently the Vice President of Investor Relations at Orica and was formerly Non-Executive Director of CreateCare Global.

DIRECTORS' REPORT (CONTINUED)

Name	Experience and Directorships
Rhett Simonds	• Rhett holds a Bachelor of Commerce from Deakin University. • Rhett has been involved with the business since joining the Simonds Group of Companies in 2005. • Rhett has a strong focus on technology-based education and training platforms with job placement outcomes. • Rhett is a director of Latitude Real Estate and a director of a number of technology-based enterprises.
Mark Simonds	• Mark holds a registered builders licence in Victoria and South Australia. Mark has spent over 40 years immersed in the volume home building industry. • Prior to 2014, when Simonds Group Limited was listed, Mark was fully engaged in the day-to-day executive management of Simonds Homes. From 1973 until the listing of Simonds Group Limited in 2014, Mark worked alongside his father Gary Simonds and understands what is required for a successful volume building business. • Mark has been focussed on Simonds Consolidated with a focus on venture capital and private equity, building and construction, real estate and the vocational education sector.
Piers O'Brien	• Piers is a qualified lawyer with over 19 years professional experience. • Piers has spent the last 11 years working in in-house legal roles as both General Manager Legal and General Counsel. During this time, he managed the legal function at ASX 200 company Skilled Group Limited for approximately 8 years and for the last 3 years has been the General Counsel of the Simonds Family Office. • Piers started his career in private practice with K&L Gates Lawyers (and its predecessor firms) where he spent 8 years specialising in mergers and acquisitions, corporate transactions and board advisory work.
Scott Mahony	• Scott is a Chartered Accountant and has held Chief Financial Officer roles at two of Australia's largest volume builders spanning more than 25 years. • Scott is well regarded for his strong financial knowledge, analytical skills and strategic thinking, as well as his ability to negotiate and deliver successful commercial outcomes in challenging business environments. • Scott joined Simonds Homes (then a private company) in 1999 and was Chief Financial Officer from 2008 to 2014. • Scott has been in various accounting roles with Telstra, P. Sartori & Co Chartered Accountants and Australian Unity before joining the volume housing industry.

DIRECTORS' REPORT (CONTINUED)

Directors' Shareholding

The following table sets out each of the directors' relevant interest in shares, debentures and rights or options on shares or debentures of the Company or related body corporate as at the date of this report:

Directors	Fully Paid Ordinary shares (Number)	Share options (Number)
Rhett Simonds	14,044	–
Mark Simonds	56,741	–
Iain Kirkwood	75,000	–

Remuneration of key management personnel

Information about the remuneration of key management personnel is set out in the remuneration report section of this directors' report. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Company Secretary

Ms Donna Abu-Elias was appointed Company Secretary of the Company on 28 May 2018 following the resignation of Ms Elizabeth Hourigan. Donna is the Group's General Counsel and prior to joining Simonds Group was Legal Counsel at Carlisle Homes Pty Ltd. Donna holds a Diploma in Construction Law from the University of Melbourne as well as a Bachelor of Law (Hons) and Bachelor of Commerce, and is a Committee Member of Housing Industry Association (HIA).

Operating and financial review

Principal activities

The Group's principal activities during the financial year were the design and construction of residential dwellings, the development of residential land and providing registered training courses.

Business overview

Building homes since 1949, Simonds Homes is one of Australia's largest volume homebuilders, with display homes located across the Australian eastern seaboard and South Australia. Simonds Homes' product range includes single and double storey detached homes, with a target market being first and second home families in the metropolitan areas of state capital and large regional cities.

Builders Academy Australia is a Registered Training Organisation with a focus on offering nationally accredited qualifications in building and construction. Embedded within one of Australia's leading home builders, BAA's core offering is 'builders training builders'. Completion of courses offered enables successful students to increase their career and employment opportunities; as well as provide a well-trained network of employees, suppliers and contractors for Simonds Homes.

The Group maintains a small development land portfolio via direct land ownership, and participation in other development land projects via indirect holdings.

Operations

Group revenue from continuing operations for the period was $605.2m compared to the previous corresponding period of $587.4m. The increase is predominantly due to changes in product mix combined with a shift away from highly customised, low margin products.

Divestment of Non-Core Operations

Following the review of operations commissioned by the new Board, on 19 December 2017 the Group divested its investment in the Hub Group for $0.188m, resulting in a loss on disposal of $0.285m.

Reconciliation of statutory financial statements to pro forma results

Pro forma EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) is reported to give information to shareholders that provides a greater understanding of the underlying performance of Simonds Group Limited's operations.

In accordance with ASIC Regulatory Guidance 230, a reconciliation of the 2018 statutory to pro forma results is provided below as follows:

Year ended 30 June 2018 (FY18)	Revenue ($m)	Gross Profit ($m)	EBITDA[1] ($m)	NPAT ($m)
FY18 statutory results from continuing operations	**605.2**	**133.3**	**13.7**	**4.8**
Remove activity of divested business	(0.6)	(0.5)	0.4	0.4
Remove impairment of non-core development land	–	–	0.4	0.3
Business review and management restructure[2]	–	–	1.8	1.3
FY18 pro forma[3] results	**604.6**	**132.8**	**16.3**	**6.8**

1. The Directors' Report includes references to pro forma results to exclude the impact of one-off costs in the year as detailed above. The Directors believe the presentation of non-IFRS financial measures are useful for the users of this Financial Report as they provide additional and relevant information that reflect the underlying financial performance of the business. Non-IFRS financial measures contained within this report are not subject to audit or review.
2. This includes $1.184m of costs associated with organisational review and management restructure including settlement of share-based payments as disclosed in note 12 of the financial statements, and $0.600m of further management restructuring costs.
3. Pro forma EBITDA of $16.259m is net profit after tax from continuing operations of $4.767m before financing items of $1.278m, tax expense of $2.400m, depreciation and amortisation of $5.247m, activity relating to the divested Hub business of $0.351m, impairment of non-core development land of $0.432m and costs associated with the business review and management restructure of $1.784m.

Earnings per share

The directors have elected to present results and Earnings per Share (EPS) on both a statutory and pro forma basis. The calculation of "Statutory EPS" is presented in Note 13. The calculation of "Pro forma EPS" is presented below.

Statutory EPS has been calculated in accordance with the requirements of Accounting Standards based on:

- profit after tax attributable to shareholders (Statutory profit); and
- the weighted average number of ordinary shares outstanding during the period ended 30 June 2018.

Pro forma EPS is a non-International Financial Reporting Standards (IFRS) measure which has been calculated on the 2018 financial year based on:

- statutory profit after tax adjusted on a pro forma basis for:
  - the impact of significant items on the 2018 financial result, being:
    - › the costs associated with the business review and management restructure;
    - › impairment of non-core development land; and
    - › divestment of the Hub business; and
  - the related income tax effect of the above adjustments
- the weighted average number of ordinary shares outstanding during the period ended 30 June 2018:
  - Basic: 143,841,655

DIRECTORS' REPORT (CONTINUED)

The directors believe that the presentation of Pro forma EPS provides users with a better understanding of the underlying financial performance of the ongoing business and allows for a more relevant comparison of financial performance between financial periods.

	Note	30 June 2018 cents per share	30 June 2017 cents per share
Statutory EPS from continuing operations			
Basic	13	3.31	1.44
Pro forma EPS from continuing operations			
Basic		4.72	3.22

Balance sheet

During the financial year the Group has delivered a significantly improved operating result and has re-stabilised the business to create a solid working capital basis to ensure sustainable growth for the business in future years.

During the period the Group continued to operate within its banking covenants. In August 2018 Simonds signed a revised facility agreement to extend the existing borrowing facilities for 3 years to September 2021.

Improved operating results and cash flow management have enabled the Group to reduce its net indebtedness (measured by cash and cash equivalents less borrowings) from $5.020m at 30 June 2017 to $1.088m at 30 June 2018. The net assets of the Group have also improved from a $3.125m deficiency at 30 June 2017 to a net asset position of $1.026m at 30 June 2018.

Operating cash flows

The Group generated $8.700m in operating cash flows during the financial year ended 30 June 2018, an increase of $1.632m in comparison with the prior corresponding period. Improved operating cash flows were derived from customer billings and tighter cost controls, enabling repayment of a significant portion of the Group's borrowings during the period.

Outlook

Simonds Homes Australia (SHA) continues to perform well across all regions, in particular increasing site starts in New South Wales during the 2018 financial year. Challenges remain in some areas with continued delays in registration of land by customers as well as customer financing. With greater focus on strengthening our strategic relationships with land developers, the location of display homes in key growth zones, consolidation of our existing product range and the release of new product.

Builders Academy Australia (BAA) continues to focus on delivering high quality trade qualifications that meet the needs of the Australian workforce. Through diversifying funding sources, delivery modes and market segments including expanded delivery in states other than Victoria, Builders Academy Australia and City-Wide Building and Training Services continue to prepare graduates to realise sustainable career outcomes. The business remains focused on meeting the increased demands placed on it from the ever-changing regulatory environment in this sector, and that continues to be a major risk and opportunity for the Group.

Summary of key business risks

Every business faces risks that may impair its ability to execute its strategy or achieve its objectives. There are some risks over which the Group has no control. These are both specific to the Group's home building business, provision of training courses, and land and project management services, and external risks, such as the economic environment. The Group's risk management approach is to identify, evaluate, and mitigate or manage its financial, operational and business risks. Our risk assessment approach includes an estimation of the likelihood of risk occurrence and potential impact on the financial results. Risks are assessed across the business and reported to the Audit and Risk Committee and to the Board where required under the Group's Risk Management Framework.

Deterioration in economic conditions resulting in a fall in demand:

There are a number of general economic conditions, such as interest rate movements, overall levels of demand for housing, economic and political stability, and state and federal government fiscal and regulatory policies that can impact the level of consumer confidence and demand, thereby affecting revenue from sales to customers and/or fees received from students.

While general economic conditions are outside the Group's control, the Group seeks to reduce its exposure to these risks by monitoring closely both internal and external sources of information that provide insights to changes in demand within the markets and regions in which it operates.

Information Technology ("IT") security and data security breaches:

The potential failure of IT security measures may result in the loss, inability to access information, destruction or theft of customer, supplier, and financial or other commercially-sensitive information including intellectual property. This has the potential to adversely affect our operating results and potentially damage the reputation of the Simonds or Builders Academy Australia brands, and/or create other liabilities for the Group.

There are a number of key controls either planned or already in place aligned to improving the security posture; the implementation, maintenance and supervision of operational policies intended to preserve the integrity of the IT systems and supporting infrastructure; regular independent audit and review of IT security; and the ongoing review, practice and updating of a disaster/crisis management plan relating to IT systems.

Non-IFRS financial information

The financial measures included in the Directors' Report have been calculated to exclude the impact of various costs and adjustments associated with current financial year relating to the Madisson business, divested Hub business, non-recurring impairments and business review and management restructure costs. The directors believe the presentation of non-IFRS financial measures is useful for the users of this financial report as they reflect the underlying financial performance of the business.

Subsequent events

In August 2018 Simonds signed a revised facility agreement to extend the existing borrowing facilities for 3 years to September 2021. There have been no significant changes to the facility other than an extension of the term.

There have been no other events that have occurred subsequent to the reporting date, other than noted in this report, that have significantly affected or may significantly affect the Group's operations, results or state of affairs in future years.

Dividends

As announced on 29 August 2018, the directors have declared $nil dividend in relation to the 2018 financial year.

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company, the Company Secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

DIRECTORS' REPORT (CONTINUED)

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 18 Board meetings, two Nomination and Remuneration Committee meetings and four Audit and Risk Management Committee meetings were held.

	Board of Directors		Nomination and Remuneration Committee		Audit and Risk Management Committee	
Directors	**Held***	**Attended**	**Held***	**Attended**	**Held***	**Attended**
Iain Kirkwood	14	14	1	1	3	2
Kevin Ryan	4	4	1	1	1	1
Neil Kearney	14	14	–	–	3	3
Delphine Cassidy	14	13	1	1	–	–
Rhett Simonds	18	18	2	1	4	3
Mark Simonds	14	11	–	–	2	2
Piers O'Brien	14	14	1	1	1	1
Scott Mahony	14	13	–	–	3	3
Vallence Gary Simonds	14	14	1	1	2	2
Matthew Chun	6	6	1	1	2	2
Susan Oliver	4	4	1	1	2	2
Michael Humphris	4	4	1	1	2	2

* Meetings held has been adjusted to reflect the number of meetings since the date of appointment, and to exclude meetings where there was conflict of interest for each director.

Delphine Cassidy was appointed to the Chair of Nomination and Remuneration Committee on 20 September 2017.

Neil Kearney was appointed to the Chair of Audit and Risk Committee on 20 September 2017.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 34 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 34 to the financial statements do not compromise the external auditors' independence, based on advice received from the Audit and Risk Management Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

DIRECTORS' REPORT: REMUNERATION REPORT

Introduction

This remuneration report, which forms part of the Directors' Report, sets out information about the remuneration of Key Management Personnel (KMP) for the year ended 30 June 2018.

The KMP disclosed in this report are listed in the table below:

Current Non-Executive Directors (NED) and Executive Directors

Name	Position	Appointment Date
Iain Kirkwood	Independent Non-Executive Director and Chairman	20 September 2017
Neil Kearney	Independent Non-Executive Director	20 September 2017
Delphine Cassidy	Independent Non-Executive Director	20 September 2017
Rhett Simonds[1]	Non-Executive Director	20 April 2016
Piers O'Brien	Non-Executive Director	20 September 2017
Mark Simonds	Executive Director	20 September 2017
Scott Mahony	Non-Executive Director	20 September 2017

1. Rhett Simonds was Interim CEO from 7 October 2017 to 4 March 2018.

Former[1] Non-Executive Directors

Name	Position	Appointment Date	Resignation Date
Vallence Gary Simonds	Non-Executive Director and Chairman	25 September 2014	20 September 2017
Susan Oliver	Deputy Chair, Non-Executive Director	6 October 2014	20 September 2017
Michael Humphris	Non-Executive Director	29 March 2017	20 September 2017

1. Former Non-Executive Directors and Senior Executives resigned from their position during the year ended 30 June 2018. Former Non-Executive Director and Chairman Vallence Gary Simonds resigned from his KMP role and has been appointed as an Advisor to the Board of Simonds Group Limited.

Current Senior Executives

Name	Position	Appointment Date
Kelvin Ryan	Chief Executive Officer (CEO) & Managing Director	5 March 2018
Mick Myers	Chief Financial Officer (CFO)	30 May 2016
John Thorburn	Executive General Manager – Housing	5 December 2016

Former Senior Executives

Name	Position	Appointment Date	Cessation Date
Matthew Chun	Group Chief Executive Officer (CEO) & Managing Director	1 April 2016	6 October 2017[1]
Rhett Simonds[2]	Interim Chief Executive Officer (CEO)	6 October 2017	5 March 2018

1. Matthew Chun stepped down as CEO and Managing Director effective 6 October 2017 by mutual agreement with the Board. From this date, Mr Chun was no longer considered a KMP. Mr Chun remained employed by the Company until 12 January 2018.
2. Rhett Simonds was Interim CEO from 7 October 2017 to 4 March 2018.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Remuneration Policy Summary

The Simonds Group Limited remuneration policy has been designed to ensure its remuneration practices attract, motivate and retain top talent from a diverse range of backgrounds with the experience, knowledge, skills and judgment to drive the Group's performance and appropriately reward their contribution towards shareholder wealth creation.

The key principles that support the remuneration policy are as follows:

- employees are rewarded fairly and competitively according to job level, market trends and individual skills, experience and performance;
- the reward strategy is in line with the overall business strategy in relation to acquisition, growth and retention of talent;
- the reward strategy encompasses elements of salary, benefits, recognition and incentives to support talent management for business and shareholder outcomes;
- it is simple, flexible, consistent and scalable across the business allowing for sustainable business growth;
- it supports the business strategy whilst reinforcing our culture and values; and
- it is regularly reviewed for relevance and reliability.

Executive Remuneration Principles and Strategy

A key principle of the Group's approach to executive remuneration is that it should demonstrate strong links with Group performance and shareholder returns. Remuneration is aligned with Group performance by requiring a significant portion of remuneration to vary with short-term and long-term performance.

The remuneration of KMP is structured taking into accounts the following factors:

- the principles highlighted above;
- the level and structure of remuneration paid to executives of other comparable publicly listed Australian companies of a similar size;
- the position and responsibilities of each executive; and
- other appropriate benchmarks and targets to reward senior executives for the Group and individual performance.

Remuneration Governance in Year Ended 30 June 2018

The Board reviews its remuneration policy and practices on a regular basis. The objectives of the Board's remuneration policy are to:

- create a consistent and sustainable system of determining the appropriate level of remuneration of all levels of the Group, including KMP;
- encourage KMP to perform to their highest level; and
- align the remuneration of KMP with the performance of the business.

The policy details the types of remuneration to be offered by the Group and factors to be considered by the Board, Nomination and Remuneration Committee (the Committee) and executives in determining the appropriate remuneration strategy.

The Board's Role in Remuneration

The Board approved the Nomination and Remuneration Committee Charter on 17 November 2014. The decisions of the Committee are subject to approval by the Board. The Board also has the authority to directly seek independent, professional and other advisers as required for the Board to carry out its responsibilities. The Board appoints, removes and/or replaces members of the Committee at its discretion.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

The Nomination and Remuneration Committee (the Committee)

The role of the Committee is to assist the Board by providing advice in relation to the remuneration packages for KMP, which includes non-executive directors. It also oversees management succession planning, performance targets and the remuneration of employees generally.

The Committee also reviews and makes recommendations to the Board on the Group's overall remuneration strategy, policies and practices, and monitors the effectiveness of the Group's overall remuneration framework in achieving the Group's remuneration strategy.

The Committee reviews the remuneration strategy and policy at least once a year and has the authority to engage external professional advisers with the approval of the Board.

Any remuneration recommendations have been made free from undue influence by members of the Group's KMP.

The Committee met two times during the year. The CEO, CFO and any remaining directors are also regularly invited to attend meetings. No individuals are present during any discussions related to their own remuneration arrangements.

During the year ended 30 June 2018, the Committee was at all times comprised of two non-executive directors.

Further details of the Committee's responsibilities are outlined in the Corporate Governance Statement, available from the Group's website at www.simondsgroup.com.au.

Non-Executive Director Remuneration

Non-executive directors are remunerated by way of fixed fees in the form of cash and superannuation in accordance with Recommendation 8.3 of the ASX Corporate Governance Council's Principles and Recommendations.

During the year ended 30 June 2018, fees paid to non-executive directors totalled $600,719 (exclusive of superannuation and cash salary and fees).

Shareholdings of non-executive directors are set out on page 30 of the Directors' Report.

The Company and each of the non-executive directors have agreed terms of appointment (as permitted under the ASX Listing Rules). Non-executive directors are not appointed for a specific term and their appointment may be terminated by notice from the individual director or otherwise pursuant to section 203B or 203D of the *Corporations Act 2001*.

The maximum annual aggregate directors' fee pool limit is $750,000 and was approved at the Annual General Meeting of Simonds Group Limited held on 2 October 2014.

Remuneration tables for non-executive directors for the year ended 30 June 2018 are set out commencing on page 24 of this remuneration report.

KMP Remuneration Framework

The KMP remuneration framework comprises three principal elements:

- a total employment cost (TEC) comprising a fixed component, consisting of a base salary, superannuation contributions and other related allowances;
- a performance based, variable 'at risk' component, comprising cash and/or equity settled short-term incentives (STI); and
- a performance and service based, variable 'at risk' component, comprising of options and/or performance rights and/or cash equivalents referred to as long-term incentives (LTI).

Executive Remuneration Components

TEC overview

TEC is benchmarked against the market median, also known as the 50th percentile, referencing market practice and comparable and similar sized organisations. While comparative levels of remuneration are monitored on a periodic basis, there is no contractual requirement or expectation that any adjustments will be made.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

STI overview

The Group STI Plan ensures that a proportion of remuneration is tied to Group performance measured annually in line with the financial year. Executives can only realise their STI at-risk component if challenging pre-determined objectives are achieved. The achievement of budgeted Group EBITDA is an initial gateway to realise a STI amount. All STI's are subject to the achievement of relevant key performance measures which are determined with reference to the Balanced Scorecard approach. The Balance Scorecard Approach encompasses the following areas of focus: Financial, Operational, Customer and People, Safety and Values.

This aligns executive interests with shareholder interests and focuses executive performance on those areas aligned to the achievement of the Group's operational strategy.

The STI payment is made in cash or in shares at the Board's discretion as part of the annual remuneration review after finalisation of the Group's audited results.

LTI overview

The Group's LTI Plan ensures that a proportion of remuneration is tied to Group performance over the long term and measured annually in line with the financial year. Executives can only realise their LTI at-risk component if challenging pre-determined objectives are achieved.

This aligns executive interests with shareholder interests and focuses executive performance on sound business decisions resulting in sustainable shareholder wealth. LTI consists of the granting of Performance Rights and/or options and/or cash equivalents that vest after a defined period, subject to Group and individual financial and non-financial performance hurdles. Vesting conditions may be waived at the absolute discretion of the Board.

Long term Incentive Key Features

Award Structure	FY2018 Cash Rights	
Consideration for the Cash Rights	The Cash Rights will be granted for nil consideration	
Vesting Period	Each tranche has a vesting period of approximately three years.	
Performance Measure	Vesting of Cash Rights is dependent on two discrete performance measures (hurdles):	
	Grant Date	**24 November 2017**
	Tranche 1 Total Share Holder Return (TSR) representing 50% of the Cash Rights Granted	Up to 50% of the Cash Rights granted will vest if the Group's (TSR) achieves a percentile ranking against the constituent companies within the S&P ASX Small Ordinaries Index (ASX Code XSI), excluding resource companies, over the Measurement Period. Percentile Ranking and percentage vesting rights are outlined below.
	Tranche 2 CAGR EPS representing 50% of the Cash Rights Granted	The Measurement Period for the Compound Annual Growth Rate (CAGR) EPS Hurdle is across the three financial years across the period 1 July 2017 to 30 June 2020.
TSR Vesting Schedule (Tranche 1)	**Simonds Group Limited Percentile Ranking**	**Percentage of Cash Rights to vest**
	Less than the 50th percentile	None
	Between the 50th and 75th percentile	50% (straight-line interpolation between the 50th and 75th percentile)
	At or above the 75th percentile	100%

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Award Structure	FY2018 Cash Rights	
CAGR EPS Vesting Schedule (Tranche 2)	**CAGR in EPS**	**Percentage of Cash Rights to vest:**
	Less than 7.5% per annum	None
	Between 7.5% and 10% per annum	Straight line interpolation applies
	At or above 10.0% per annum	100%
Service Vesting Condition	The Service Vesting Condition is continuous employment with the Company from Grant date to vesting date.	

Award Structure	FY2017 Performance Rights	
Consideration for the Performance Rights	The Performance Rights will be granted for nil consideration	
Vesting Period	Each tranche has a vesting period of approximately three years.	
Performance Measure	Vesting of Cash Rights is dependent on two discrete performance measures (hurdles):	
	Grant Date	**31 January 2017**
	Tranche 1 Total Share Holder Return (TSR) representing 50% of the Performance Rights Granted	Up to 50% of the Performance Rights granted will vest if the Group's (TSR) achieves a percentile ranking against the constituent companies within the S&P ASX Small Ordinaries Index (ASX Code XSI), excluding resource companies, over the Measurement Period. Percentile Ranking and percentage vesting rights are outlined below.
	Tranche 2 CAGR EPS representing 50% of the Performance Rights Granted	The Measurement Period for the Compound Annual Growth Rate (CAGR) EPS Hurdle is across the three financial years across the period 1 July 2016 to 30 June 2019.
TSR Vesting Schedule (Tranche 1)	**Simonds Group Limited Percentile Ranking**	**Percentage of Performance Rights to vest**
	Less than the 50th percentile	None
	Between the 50th and 75th percentile	50% (straight-line interpolation between the 50th and 75th percentile)
	At or above the 75th percentile	100%
CAGR EPS Vesting Schedule (Tranche 2) & CEO Options	**CAGR in EPS**	**Percentage of Performance Rights to vest:**
	Less than 7.5% per annum	None
	Between 7.5% and 10% per annum	Straight line interpolation applies
	At or above 10.0% per annum	100%
Service Vesting Condition	The Service Vesting Condition is continuous employment with the Company from Grant date to 30 September 2019.	

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Award Structure	FY2017 CEO Options	
Consideration for Options	Options carry an exercise price of $0.40	
Vesting Period	Vesting period of approximately three years. Grant Date: 31 January 2017	
Performance Measure	Vesting of options is dependent on one discrete performance measure (hurdle):	
Vesting Schedule	**CAGR in EPS**	**Percentage of Options to vest:**
	Less than 7.5% per annum	None
	Between 7.5% and 10% per annum	Straight line interpolation applies
	At or above 10.0% per annum	100%
Service Vesting Condition	The Service Vesting Condition is continuous employment with the Company from Grant date to 30 September 2019[1].	

1. At the discretion of the Board it has been agreed that a quantity of these options will continue vesting after the cessation date of the employee. The quantity of options that will continue to vest is based on a pro-rata basis, dependant on time employed during the plan, to the date of cessation of employment. The TSR and EPS hurdles will remain in place and be tested at the applicable testing date.

Award Structure	FY2016 Performance Rights	
Consideration for the Performance Rights	The Performance Rights will be granted for nil consideration.	
Vesting Period	Each tranche has a vesting period of approximately three years.	
Performance Measure	Vesting of Performance Rights is dependent on two discrete performance measures (hurdles):	
	Grant Date	**30 November 2015**
	Tranche 1 Total Share Holder Return (TSR) representing 50% of the Performance Rights Granted.	Up to 50% of the Performance Rights granted will vest if the Group's (TSR) achieves a percentile ranking against the constituent companies within the S&P ASX Small Ordinaries Index (ASX Code XSI), excluding resource companies, over the Measurement Period. Percentile Ranking and percentage vesting rights are outlined below.
	Tranche 2 CAGR EPS representing 50% of the Performance Rights Granted.	The Measurement Period for the Compound Annual Growth Rate (CAGR) EPS Hurdle is across the three financial years across the period 1 July 2015 to 30 June 2018.
TSR Vesting Schedule (Tranche 1)	**Simonds Group Limited Percentile Ranking**	**Percentage of Performance Rights to vest**
	Less than the 50th percentile	None
	Between the 50th and 75th percentile	50% (straight-line interpolation between the 50th and 75th percentile)
	At or above the 75th percentile	100%
CAGR EPS Vesting Schedule (Tranche 2)	**CAGR in EPS**	**Percentage of Performance Rights to vest:**
	Less than 7.5% per annum	None
	Between 7.5% and 10% per annum	Straight line interpolation applies
	At or above 10.0% per annum	100%
Service Vesting Condition	The Service Vesting Condition is continuous employment with the Company from Grant date to 31 August 2018.	

Remuneration Structure and Performance/Shareholder Wealth Creation

The Group's annual financial performance and indicators of shareholder wealth are summarised below.

	FY2018	FY2017	FY2016	FY2015	FY2014
	Statutory Actual (Continuing Operations)	Statutory Actual (Continuing Operations)	Statutory Actual (Continuing Operations)	Pro Forma Actual	Statutory Actual
Financial Performance	$m	$m	$m	$m	$m
Revenue	605.2	587.4	628.5	634.4	543.8
EBITDA	13.7[1]	10.1	4.4	34.8	15.7
NPAT	4.8	2.1	(2.2)	21.1	7.5
Share Price at beginning of period ($)	0.31	0.28	1.40	–	–
Share Price at end of period ($)	0.36	0.31	0.28	1.40	–
Dividends (cents per share)	–	–	–	5.30	–
EPS (cents per share)	3.31	1.44	(1.53)	15.64	–

1. Statutory EBITDA is net profit after tax from continuing operations $4.767m before financing items $1.278m, tax expenses $2.400m, and depreciation and amortisation $5.247m.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Remuneration Tables – Details of KMP Remuneration

Details of the remuneration of KMP, including directors (as defined in AASB 124 Related Party Disclosures) of the Group are set out in the following tables. Comparative information is also included below.

			Short Term Employee Benefits		Termination Benefits
FY2018	**Directors Fees $**	**Cash Salary and Fees $**	**Short Term Incentive $**	**Non-monetary benefits $**	**Termination Payments $**
Current Non-Executive and Executive Directors					
I Kirkwood	121,215	–	–	–	–
N Kearney	85,563	–	–	–	–
D Cassidy	85,563	–	–	–	–
R Simonds [1]	52,300	133,729	–	–	–
P O'Brien	67,737	–	–	–	–
M Simonds	34,428	69,732	–	–	–
S Mahony	67,737	–	–	–	–
Former Non-Executive Directors					
V G Simonds	45,662	–	–	1,763	–
S Oliver	44,954	–	–	–	–
M Humphris	29,988	–	–	–	–
Total	**635,147**	**203,461**	**–**	**1,763**	**–**
Current Senior Executives					
K Ryan [2]	–	189,598	193,973	2,569	–
M Myers	–	290,961	125,000	8,246	–
J Thorburn	–	404,951	125,000	7,946	–
Former Senior Executives					
M Chun [3]	–	310,167	144,986	2,133	464,891
Total		**1,195,677**	**588,959**	**20,894**	**464,891**
Total KMP	**635,147**	**1,399,138**	**588,959**	**22,657**	**464,891**

1. Rhett Simonds was Interim CEO from 7 October 2017 to 4 March 2018, and in that capacity received a salary.
2. Kelvin Ryan was appointed as CEO and Managing Director on 5 March 2018.
3. Matthew Chun stepped down as CEO and Managing Director effective 6 October 2017 by mutual agreement with the Board. From this date, Mr Chun was no longer considered a KMP. Mr Chun remained employed by the Company until 12 January 2018.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Post-employment benefits	Long-term benefits		Share-based Payments (SBP)		Percentage of remuneration fixed and at risk	
Super $	Annual Leave $	Long Service Leave $	Performance Rights/Options $	Total $	Fixed %	At Risk %
11,515	–	–	–	132,730	100%	–
8,129	–	–	–	93,692	100%	–
8,129	–	–	–	93,692	100%	–
14,221	–	–	–	200,250	100%	–
6,435	–	–	–	74,172	100%	–
9,895	1,667	52	–	115,774	100%	–
6,435	–	–	–	74,172	100%	–
4,338	–	–	–	51,763	100%	–
4,271	–	–	–	49,225	100%	–
2,849	–	–	–	32,837	100%	–
76,217	**1,667**	**52**	**–**	**918,307**		
9,250	14,584	141	–	410,115	53%	47%
20,049	10,952	1,380	69,066	525,654	63%	37%
20,049	22,219	864	69,066	650,095	70%	30%
12,198	15,491	–	57,619	1,007,485	80%	20%
61,546	**63,246**	**2,385**	**195,751**	**2,593,349**		
137,763	**64,913**	**2,437**	**195,751**	**3,511,656**		

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Remuneration Tables – Details of KMP Remuneration (continued)

			Short Term Employee Benefits		Termination Benefits
FY2017	**Directors Fees $**	**Cash Salary and Fees $**	**Short Term Incentive $**	**Non-monetary benefits $**	**Termination Payments $**
Current and Former Non-Executive Directors					
V G Simonds	182,648	–	–	–	–
S Oliver	186,638	30,000	–	–	–
L Gorr	75,516	–	–	–	–
R Simonds	44,977	–	–	–	–
M Humphris	31,373	–	–	–	–
Total Non-Executive Directors	**521,152**	**30,000**	**–**	**–**	**–**
Current and Former Senior Executives					
M Chun	–	595,385	–	–	–
M Myers	–	300,000	–	–	–
J Thorburn	–	194,630	–	–	–
Total Senior Executives	**–**	**1,090,015**	**–**	**–**	**–**
Total KMP	**521,152**	**1,120,015**	**–**	**–**	**–**

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Post-employment benefits	Long-term benefits		Share-based Payments (SBP)		Percentage of remuneration fixed and at risk	
Super $	Annual Leave $	Long Service Leave $	Performance Rights/Options $	Total $	Fixed %	At Risk %
17,352	–	–	–	200,000	100%	–
17,730	–	–	–	234,368	100%	–
7,174	–	–	–	82,690	100%	–
4,273	–	–	–	49,250	100%	–
2,980	–	–	–	34,353	100%	–
49,509	**–**	**–**	**–**	**600,661**		
19,616	10,567	1,325	88,192	715,085	88%	12%
19,616	16,626	582	14,091	350,915	96%	4%
12,503	8,209	169	14,091	229,602	94%	6%
51,735	**35,402**	**2,076**	**116,374**	**1,295,602**		
101,244	**35,402**	**2,076**	**116,374**	**1,896,263**		

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Key terms of the Executive Services Agreement Group Chief Executive Officer (CEO) & Managing Director

The material terms of the Executive Services Agreement between Kelvin Ryan and the Company for the role of Group Chief Executive Officer (CEO) & Managing Director are as follows:

Term:	No fixed term. Ongoing until terminated by either party in accordance with the Agreement.
Total Employment Cost (TEC):	$600,000 per annum including superannuation, reviewed annually.
Short Term Incentive (STI) for FY18:	Maximum opportunity of $600,000 per annum, subject to performance. If performance is achieved in FY2018 the STI will be pro-rata from commencement date to 30 June 2018.
Long Term Incentive (LTI) for FY18:	LTI eligibility will commence in FY19 and will be allocated pursuant to the Simonds Group Employee Share Plan.
Notice Period/Termination Entitlements:	12 months by either party. Employment may be ended immediately in certain circumstances including misconduct, incapacity, and mutual agreement or in the event of a fundamental change in the CEO's role or responsibilities. The Company may elect to make a payment in lieu of any unserved notice period.
Post-Employment Restraint:	A 6 month post-employment restraint provision applies.

STI Payments to KMP

All STIs are subject to the achievement of relevant key performance measures which are determined with reference to the Balanced Scorecard approach. The Balance Scorecard approach encompasses the following areas of focus: Financial, Operational, Customer and People, Safety and Values.

KMP LTI

The following tables provide the details of performance rights allocated to the KMP pursuant to the LTI Plan.

Number of equity instruments granted, vested and expired/forfeited – performance rights

FY2018

Name	Performance Rights 1 July 2018	Performance Rights Granted	Performance Rights Vested	Performance Rights Expired/ Forfeited	Balance 30 June 2018
M Chun	453,401	–	–	(337,718)	115,683
M Myers	314,861	403,226	–	–	718,087
J Thorburn	314,861	403,226	–	–	718,087
Total	**1,083,123**	**806,452**	**–**	**(337,718)**	**1,551,857**

FY2017

Name	Performance Rights 1 July 2016	Performance Rights Granted	Performance Rights Vested	Performance Rights Expired/ Forfeited	Balance 30 June 2017
M Chun	–	453,401	–	–	453,401
M Myers	–	314,861	–	–	314,861
J Thorburn	–	314,861	–	–	314,861
Total	**–**	**1,083,123**	**–**	**–**	**1,083,123**

Number of equity instruments granted, vested and expired/forfeited – options

Name	Options 1 July 2017	Options Granted	Options Vested	Options Expired/ Forfeited	Balance 30 June 2018
					FY2018
M Chun	4,000,000	–	–	(2,979,424)	1,020,576

Name	Options 1 July 2016	Options Granted	Options Vested	Options Expired/ Forfeited	Balance 30 June 2017
					FY2017
M Chun	–	4,000,000	–	–	4,000,000

Value of performance rights granted, exercised and expired/forfeited – performance rights

	Rights issue	Tranche	Fair value at grant date $ per share	No. of Perfor-mance Rights	Accounting Fair Value at grant date $	Exercised/ Vested $	Expired/ Forfeited $	Accrued Fair Value at 30 June $
FY2018								
M Myers	FY2018	TSR	0.19	201,613	38,306	–	–	12,478
		EPS	0.30	201,613	60,484	–	–	22,300
J Thorburn	FY2018	TSR	0.19	201,613	38,306	–	–	12,478
		EPS	0.30	201,613	60,484	–	–	22,300
M Chun	FY2017	TSR	0.23	226,701	52,141	–	38,837	13,304
		EPS	0.35	226,700	79,345	–	59,101	20,244
M Myers	FY2017	TSR	0.23	157,431	36,209	–	–	19,185
		EPS	0.35	157,430	55,100	–	–	29,194
J Thorburn	FY2017	TSR	0.23	157,431	36,209	–	–	19,185
		EPS	0.35	157,430	55,100	–	–	29,194
FY2017								
M Chun	FY2017	TSR	0.23	226,701	52,141	–	–	8,046
		EPS	0.35	226,700	79,345	–	–	12,245
M Myers	FY2017	TSR	0.23	157,431	36,209	–	–	5,588
		EPS	0.35	157,430	55,100	–	–	8,503
J Thorburn	FY2017	TSR	0.23	157,431	36,209	–	–	5,588
		EPS	0.35	157,430	55,100	–	–	8,503

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Value of performance options granted, exercised and expired/forfeited – performance options

	Options issue	Tranche	Fair value at grant date $ per share	No. of Perfor-mance Options	Accounting Fair Value at grant date $	Exercised/ Vested $	Expired/ Forfeited $	Accrued Fair Value at 30 June $
FY2018								
M Chun	FY2017	EPS (Options)	0.11	4,000,000	440,000	–	327,737	112,263
FY2017								
M Chun	FY2017	EPS (Options)	0.11	4,000,000	440,000	–	–	440,000

Non-Executive Directors and KMP Shareholdings

Shareholdings of non-executive directors and KMP are set out below:

FY2018 — Number of shares

Name	Opening balance	Acquired	Other[1]	Closing balance
Non-Executive and Executive Directors (Current and Former)				
R Simonds	14,044	–	–	14,044
M Simonds	–	–	56,741	56,741
V.G Simonds	56,138,895	–	(56,138,895)	–
S Oliver	44,000	–	(44,000)	–
I Kirkwood	–	75,000	–	75,000
Total Non-Executive Directors	**56,196,939**	**75,000**	**(56,126,154)**	**145,785**
Senior Executives	–	–	–	–
Total Senior Executive	**–**	**–**	**–**	**–**
Total KMP	**56,196,939**	**75,000**	**(56,126,154)**	**145,785**

1. Other relates to when KMP took up their position or ceased their position with the Company.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

FY2017				**Number of shares**
Name	**Opening balance**	**Acquired**	**Other**	**Closing balance**
Non-executive and Executive Directors (Current and Former)				
V.G Simonds	56,138,895	–	–	56,138,895
S Oliver	44,000	–	–	44,000
L Gorr	461,180	–	(461,180)	–
R Simonds	14,044	–	–	14,044
M Humphris	–	–	–	–
Total Non-Executive Directors	**56,658,119**	**–**	**(461,180)**	**56,196,939**
Senior Executives				
M Chun	–	–	–	–
M Myers	–	–	–	–
J Thorburn	–	–	–	–
Total Senior Executive	**–**	**–**	**–**	**–**
Total KMP	**56,658,119**	**–**	**(461,180)**	**56,196,939**

Executive Service Agreements

		Minimum Notice Period	
Name	**Contract Length**	**Termination by Executive**	**Termination by Company**
K Ryan	No fixed term	12 months	12 months
M Myers	No fixed term	6 months	6 months
J Thorburn	No fixed term	3 months	3 months

Loans to Director

The Group has not provided any loans to directors or their related parties during the year ended 30 June 2018 (2017: Nil).

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Other KMP Transactions

During the financial year, the Group entered into a number of transactions with related parties of KMP.

Profit for the year includes the following items of revenue and expense that resulted from transactions, other than compensation, loans or equity holdings, with KMP or their related entities:

	Sale of goods		Leases and services rendered		Non-cash remuneration	
	30 June 2018 $	30 June 2017 $	30 June 2018 $	30 June 2017 $	30 June 2018 $	30 June 2017 $
Vallence Gary Simonds and related entities:						
Properties leased on an arms-length basis	–	–	267,192	522,485	–	–
Services received from OZSoft Solutions Pty Ltd (VETrack) and RTOMS Pty Ltd[1]	–	–	–	286,198	–	–
Consulting expense incurred during the year	–	–	71,303	–	–	–
Remuneration for employee services	–	–	130,644	96,480	–	–
Car Park provided	–	–	–	–	6,183	–
	–	–	469,139	905,163	6,183	–
Leon Gorr and related entities:						
Legal services provided by HWL Ebsworth Lawyers	–	–	–	83,285	–	–
	–	–	–	83,285	–	–
Matthew Chun and related entities:						
Construction of a residential home provided on an arms-length basis	–	683,400	–	–	–	–
	–	683,400	–	–	–	–
John Thorburn and related entities:						
Lease of display home on an arms-length basis	–	–	261,000	152,250	–	–
	–	–	261,000	152,250	–	–
Total	**–**	**683,400**	**730,139**	**1,140,698**	**6,183**	**–**

1. Related entities of Vallence Gary Simonds sold OZSoft Solutions Pty Ltd (VETrack) and RTOMS Pty Ltd in May 2017. From this date these companies are no longer considered related parties.

DIRECTORS' REPORT (CONTINUED)

Auditor's independence declaration

The auditor's independence declaration is included after this report on page 34.

Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This directors' report is signed in accordance with a resolution of directors made to pursuant to s.298 (2) of the *Corporations Act 2001*.

On behalf of the directors

Iain Kirkwood	**Kelvin Ryan**
Chairman	Chief Executive Officer and Managing Director

Melbourne, 29 August 2018

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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29 August 2018

The Board of Directors
Simonds Group Limited
Level 4, 570 St Kilda Road
MELBOURNE VIC 3000

Simonds Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Simonds Group Limited.

As lead audit partner for the audit of the financial report of Simonds Group Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Genevra Cavallo

Genevra Cavallo
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of Simonds Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Simonds Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Recognition of revenue and work in progress on construction contracts For the year ended 30 June 2018, the Group's revenue from construction contracts totalled $593.067m. Revenue from construction contracts is recognised with reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs as disclosed in Note 3.7.1. As disclosed in Note 4, significant management estimation is required in assessing the following: - Estimation of total contract revenue and costs; and - Determination of stage of completion.	Our audit procedures included, but were not limited to: • Obtaining an understanding of the process undertaken by management to account for the recognition of revenue and work in progress; • Testing key controls in respect of the revenue process, • Assessing management's determination of the percentage of completion allocated to each stage of the build process against historical cost profiles; • Testing a sample of inputs into the model used to establish management's percentage of completion allocated to each stage; • Assessing management's estimation of costs to complete, including comparing historical actual performance against forecast; • Recalculating, on a sample basis, revenue recognised based on the stage of completion of selected jobs; • Challenging contracts which exhibited heightened risk characteristics; and • Agreeing, on a sample basis, job data back to source documentation, including customer contracts, approved variations and job costs. We also assessed the appropriateness of the disclosures in Notes 3.7.1 and 4 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, ASX announcement and full year results presentation which we obtained prior to the date of the auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): the Chairman's Welcome Letter, Letter from the Group CEO and Managing Director, Financial Highlights and additional securities exchange information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Welcome Letter, Letter from the Group CEO and Managing Director and Financial Highlights, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgment to determine the appropriate action.

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Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Deloitte.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 32 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Simonds Group Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Genevra Cavallo

Genevra Cavallo
Partner
Chartered Accountants
Melbourne, 29 August 2018

DIRECTORS' DECLARATION

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3.1 to the financial statements; and

c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity

d) the directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 3.4 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the *Corporations Act 2001*.

On behalf of the Directors

Iain Kirkwood
Chairman

Kelvin Ryan
Chief Executive Officer and Managing Director

Melbourne, 29 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	30 June 2018 $'000	30 June 2017 $'000
Continuing operations			
Revenue	5	605,164	587,369
Cost of sales		(471,838)	(461,436)
Gross profit		**133,326**	**125,933**
Expenses	11	(118,018)	(112,096)
Profit before significant items, financing items, depreciation and amortisation		**15,308**	**13,837**
Significant items	12	(1,616)	(3,703)
Profit before financing items, depreciation and amortisation		**13,692**	**10,134**
Depreciation and amortisation charges	17,18	(5,247)	(5,020)
Profit before financing items and tax		**8,445**	**5,114**
Financing items			
Interest income	7	2	1
Interest expense	8	(1,280)	(1,728)
Net financing cost		**(1,278)**	**(1,727)**
Profit before tax		**7,167**	**3,387**
Income tax expense	9	(2,400)	(1,309)
Profit from continuing operations after tax		**4,767**	**2,078**
Discontinued operations			
Loss from discontinued operations after tax	10	(993)	(1,873)
Profit after tax for the year		**3,774**	**205**
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Net fair value gain on available for sale financial asset		236	–
Total comprehensive income for the year		**4,010**	**205**
Earnings per share			
From continuing operations			
Basic (cents per share)	13	3.31	1.44
Diluted (cents per share)	13	3.31	1.44
From continuing and discontinued operations			
Basic (cents per share)	13	2.62	0.14
Diluted (cents per share)	13	2.62	0.14

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	30 June 2018 $'000	30 June 2017 $'000
Assets			
Current Assets			
Cash and bank balances	35	7,010	10,204
Trade and other receivables	14	34,947	32,690
Inventories	15	67,907	48,185
Other financial assets	20	1,197	1,260
Tax receivable	9	–	1,441
Other assets	19	2,363	3,174
Total current assets		113,424	96,954
Non-Current Assets			
Property, plant and equipment	17	7,177	7,878
Intangible assets	18	5,667	5,676
Total non-current assets		12,844	13,554
Total assets		**126,268**	**110,508**
Liabilities			
Current Liabilities			
Trade and other payables	21	71,739	61,168
Tax payable	9	3,432	–
Borrowings	22	2,362	3,875
Provisions	23	12,497	12,989
Deposits and income in advance	24	20,020	13,774
Total current liabilities		110,050	91,806
Non-Current Liabilities			
Borrowings	22	5,736	11,349
Provisions	23	8,205	7,878
Deferred tax liabilities	9	1,251	2,600
Total non-current Liabilities		15,192	21,827
Total liabilities		**125,242**	**113,633**
Net assets/(liabilities)		**1,026**	**(3,125)**
Equity			
Issued capital	25	12,904	12,911
Reserves	26	23,423	23,039
Accumulated losses	27	(35,301)	(39,075)
Total equity		**1,026**	**(3,125)**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

Consolidated	Notes	Issued capital $'000	Share based payments reserve $'000	Share buy-back reserve $'000	Investment revaluation reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2016		12,911	30,248	(7,204)	–	(39,280)	(3,325)
Employee share plan expense	32	–	229	–		–	229
Performance and service rights vested/forfeited	32	–	(234)	–	–	–	(234)
Total comprehensive income for the year		–	–	–	–	205	205
Balance at 30 June 2017		**12,911**	**30,243**	**(7,204)**	**–**	**(39,075)**	**(3,125)**
Balance at 1 July 2017		12,911	30,243	(7,204)	–	(39,075)	(3,125)
Profit after tax for the year		–	–	–	–	3,774	3,774
Other comprehensive income for the year, net income tax		–	–	–	236	–	236
Total comprehensive income for the year		–	–	–	236	3,774	4,010
Treasury shares	25	(7)	–	–	–	–	(7)
Employee share plan expense	32	–	832	–	–	–	832
Performance and service rights vested/forfeited	32	–	(684)	–	–	–	(684)
Balance at 30 June 2018		**12,904**	**30,391**	**(7,204)**	**236**	**(35,301)**	**1,026**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities			
Receipts from customers		603,200	604,503
Payments to suppliers and employees		(594,661)	(596,599)
Cash generated from operations		8,539	7,904
Transaction costs associated with proposed Scheme of Arrangement		–	(1,757)
Interest paid	8	(1,280)	(1,728)
Income taxes refunded		1,441	2,649
Net cash generated from operating activities	**35**	**8,700**	**7,068**
Cash flows from/(used in) investing activities			
Interest received	7	2	1
Proceeds from disposal of property, plant and equipment		263	355
Net cash inflow on disposal of subsidiary	38.4	140	–
Payments for property, plant and equipment		(2,089)	(554)
Payments for intangibles assets		(2,576)	(2,400)
Net cash (used in) investing activities		**(4,260)**	**(2,598)**
Cash flows from/(used in) financing activities			
Proceeds from borrowings		1,059	6,612
Repayment of borrowings		(6,939)	(1,886)
Payment for finance leases		(1,754)	(2,168)
Net cash generated from/(used in) financing activities		**(7,634)**	**2,558**
Net increase/(decrease) in cash and cash equivalents		**(3,194)**	**7,028**
Cash and cash equivalents at the beginning of the year		10,204	3,176
Cash and cash equivalents at the end of the year	**35**	**7,010**	**10,204**

The accompanying notes form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1. General information

The Company is incorporated in Australia and is a for-profit entity.

The Company's registered office and principal place of business is as follows:

Level 4, 570 St Kilda Road
Melbourne VIC 3004

These financial statements comprise the consolidated financial statements of the Company and the entities it controls (the "Group"). The entities controlled by the Company are detailed in note 16 to the financial report. The principal activities of the Group are the design and construction of residential dwellings, the development of residential land and providing registered training courses.

2. Application of new and revised accounting standards

2.1 Amendments to accounting standards and new interpretations that are mandatorily effective for the current financial year

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

2.2 Standards and interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Directors have reviewed all standards and interpretations on issue but not yet effective and with the exception of the following standards, do not expect these standards and interpretations to have a material effect on the financial statements of the Group.

AASB 16 'Leases' (effective 1 January 2019)

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 'Leases' and the related interpretations. AASB 16 eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their statements of financial position.

The Group is in the process of implementing changes to our systems, but the actual impact at the time of adoption will depend on future economic conditions, including:

- the Group's borrowing rate at 1 July 2019,
- the composition of the Group's lease portfolio at that date,
- the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use recognition exemptions for low value leases and/or short term leases (under 12 months).

The most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of display homes and office space. As at 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to $21.899m (refer note 33).

AASB 9 'Financial Instruments' (effective 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It sets out new rules for hedge accounting. The Group does not expect any material impact on the Group's accounting for financial instruments. See note 29 for details regarding financial instruments.

AASB 15 'Revenue from Contracts with Customers' (effective 1 January 2018)

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue and AASB 111 Construction Contracts. Based on an assessment of the Group's revenue streams, its contracts with its customers and a comparison of the requirements of AASB 15 with existing accounting policies and revenue recognition, the new standard is unlikely to have a material impact on the Group's revenue recognition.

3. Significant accounting policies

3.1 Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB) and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group.

Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by the IASB. The financial statements were authorised for issue by the directors on 29 August 2018.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 or value in use in AASB 136.

3.3 Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

3.4 Going concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

3.5 Basis of consolidation

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Shares in subsidiary companies are measured at cost less any impairment in the parent entity only financial statements (refer Note 36).

3.6 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

3.7 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.8 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for rebates and other similar allowances.

3.8.1 Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably, and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred and that it is probable that it will be recovered. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position as a liability, as income in advance. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

3.8.2 Sale of speculative homes, display homes and land

Revenue from the sale of speculative homes, display homes and land is recognised when the goods are delivered, and titles have passed at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.8.3 Rendering of registered training services

Revenue from registered training services is recognised over the duration of the course by reference to the percentage of services provided and when the Group is entitled to claim the funding from the government.

3.8.4 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.9 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

3.9 Leasing (continued)

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leases are classified as operating leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee. Payments made under operating leases (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the period of the lease.

3.10 Employee benefits

3.10.1 Short-term and Long-term employee benefits

Short term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Other Long-term employee benefits

Liabilities for annual leave and long service leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in the provision for employee entitlements and are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Consideration is given to expected future wage and salary levels, departures and periods of service.

These employee benefits entitlements are presented as current liabilities in the balance sheet if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

3.10.2 Superannuation contributions

Contributions to defined contribution superannuation plans are expensed when employees have rendered services entitling them to the contributions.

3.10.3 Termination benefit

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

3.10.4 Bonus entitlements

A liability is recognised for bonus entitlements where contractually obliged or where there is a past practice that has created a constructive obligation.

3.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.11.1 Current tax

The tax currently payable is based on the financial result for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Adjustments are made for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the Group or that have a different tax consequence at the level of the Group.

3.11.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Adjustments are made for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the Group or that have a different tax consequence at the level of the Group. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.11.3 Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

3.11.4 Tax consolidation

The entities, except the trusts within the Group, have formed a tax-consolidated group with effect from 1 July 2010 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Simonds Group Limited. Current tax expense/(income), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in those entities using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts.

The tax funding arrangements require payments to/(from) the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivable/(payable) are at call. Contributions to fund the tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

3.11 Taxation (continued)

3.11.4 Tax consolidation (continued)

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

3.12 Property, plant and equipment

The carrying amount of property, plant and equipment which is valued on the cost basis, is subject to impairment testing and is reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of property, plant and equipment exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	5 years or the period of the lease
Computer equipment	3 years
Office furniture and fittings	5 years
Display home furniture, fixtures and fittings	5 years
Motor vehicles	5 years
Plant and equipment	5 years

3.13 Intangible assets

3.13.1 Intangible assets acquired separately

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The following estimated useful lives are used in the calculation of depreciation:

	Useful Life	Source
Computer software	3 years	External
Capitalised courses	2–3 years	External/Internal
RTO Licence	Over the life of the licence	External
Capitalised product designs	3 years	External/Internal

3.13.2 Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.14 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

3.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.15.1 Construction contracts

Construction work-in-progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. Contract costs include all costs directly related to specific contracts, and costs that are specifically chargeable to the customer under the terms of the contract. The stage of completion is measured using the percentage of completion method.

3.15.2 Land at cost

Cost includes the costs of acquisition, development, borrowings and all other costs directly related to specific projects.

3.15.3 Speculative homes and displays

Cost includes the costs of building the speculative and display homes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

3.16 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.16.1 Maintenance and warranty

Provisions for the cost of maintenance and warranty is the directors' best estimate of the expenditure required to settle the Group's obligations are under legislative requirements.

3.16.2 Make good

Provisions based on the directors' best estimates of the costs required to reinstate the display homes under legislation; or requirement to be at a saleable standard.

3.17 Financial instruments

3.17.1 Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost using the effective interest method less impairment.

3.17.2 Investment in land fund

The Group has investments which are units held in a land fund that are stated at fair value because the directors consider that fair value can be reliably measured.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

3.18 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

a) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

b) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

3.19 Share-based payment transactions

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

4.1 Percentage of completion on the construction contracts

Estimate of construction contracts on a percentage completion basis, in particular with regard to accounting for variations, the timing of profit recognition and the amount of profit recognised can often result in an adjustment to the reported revenues and expenses and/or the carrying amount of assets and liabilities.

4.2 Provision for maintenance and warranties

At each year end the Group considers its legal and constructive obligations for warranties and maintenance on properties constructed. Typically, the Group makes provision for warranties for a period of up to ten years following the completion of a construction contract. The directors take into account the annual build program, history of defects relating to materials used or in services provided and the historical liabilities the Group has assumed in respect of warranties in estimating the provision for warranties. The directors use a present value methodology to recognise the best estimate of the expenditure required to settle the Group's obligation.

In April 2017, an independent actuary was engaged by Simonds Group Ltd to analyse historical maintenance and warranty spend and provide an estimate for the maintenance and warranty provision as at 30 June 2017. Consistent with the prior year, the Group has adopted the key assumptions provided by the independent actuary while retaining the model used historically for calculating the maintenance and warranty provision as at 30 June 2018.

4.3 Provision for impairment losses on land development

The Group holds land stock for development, which is recorded as inventory in the financial statements. At 30 June 2018, the directors assessed the value of the land stock inventory, referencing contracts, other documentary evidence and comparative sales data to determine valuations of certain land titles.

4.4 Impairment of goodwill

At 30 June 2018 goodwill of $2.603m is allocated to the registered training segment (2017: $2.603m registered training segment and $0.373m to the land development segment).

The recoverable amount of a cash-generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections covering a five-year period based on financial budgets approved by management for the subsequent financial year. These growth rates do not exceed the long-term average growth rates for the industry in which each CGU operates.

Cash flow projections for CGUs are based on budgeted EBITDA during the projection period, increasing by underlying cash flow growth rates of 4.2% per annum. The cash flows beyond the five-year projection period have been extrapolated using a steady growth rate of 2.0%. The underlying growth rates have been determined by management based on most recent financial budgets and forecasts and expected industry growth rates.

In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rate to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rate applied is 17.0%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Revenue

The following is an analysis of the Group's revenue for the year (excluding interest income, refer note 7).

	30 June 2018 $'000	30 June 2017 $'000
Continuing operations		
Revenue from residential construction contracts	593,067	569,864
Revenue from rendering of registered training services	11,190	13,434
Revenue from developments	907	4,071
	605,164	**587,369**
Discontinued operations	–	**6,194**
	605,164	**593,563**

6. Segment information

6.1 Products and services from which reportable segments derive their revenue

Information on segment performance focusing on the types of products and services the Group provides.

No operating segments have been aggregated in arriving at the reportable segments of the Group. Specifically, the Group's reportable segments under AASB 8 Operating Segments are as follows:

- *Residential construction* – this includes activities relating to contracts for residential home construction, speculative home building and the building of display home inventory.
- *Registered training* – this includes activities relating to registered training provided by House of Learning Pty Ltd trading as Builders Academy Australia and City-Wide Building and Training Services Pty Ltd.
- *Development* – this includes activities relating to land development and sales.

Madisson Homes is a subsidiary of the Group and in the prior years formed part of the residential construction segment. Madisson Homes operated in the medium density market, building apartments and townhouses for commercial developers using the concepts, designs and specifications provided by the developers. Consistent with the prior reporting period, this business unit has been presented as a discontinued operation in note 10 as at 30 June 2018.

6.2 Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

	Segment revenue		Segment Profit before tax	
Continuing operations	30 June 2018 $'000	30 June 2017 $'000	30 June 2018 $'000	30 June 2017 $'000
Residential construction	593,067	569,864	8,896	3,085
Registered training	11,190	13,434	(446)	433
Land development	907	4,071	(1,283)	(131)
	605,164	**587,369**	**7,167**	**3,387**
Discontinued operations	–	**6,194**	**(1,419)**	**(2,714)**
Consolidated segment revenue and profit/(loss) before tax for the period	**605,164**	**593,563**	**5,748**	**673**

6.3 Segment assets and liabilities

	30 June 2018 $'000	30 June 2017 $'000
Segment assets		
Residential construction	118,957	100,859
Registered training	3,681	4,573
Land development	2,948	4,968
	125,586	**110,400**
Discontinued operations	682	108
Total segment assets	**126,268**	**110,508**
Total assets	**126,268**	**110,508**
Segment liabilities		
Residential construction	122,099	110,526
Registered training	1,735	1,150
Land development	97	12
	123,931	**111,688**
Discontinued operations	1,311	1,945
Total segment liabilities	**125,242**	**113,633**
Total liabilities	**125,242**	**113,633**

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments.

6.4 Other segment information

	Interest expense		Depreciation and amortisation	
	30 June 2018 $'000	30 June 2017 $'000	30 June 2018 $'000	30 June 2017 $'000
Residential construction	1,280	1,728	3,975	4,150
Registered training	–	–	1,269	870
Land development	–	–	3	–
Total	**1,280**	**1,728**	**5,247**	**5,020**

	Additions to non-current assets	
	30 June 2018 $'000	30 June 2017 $'000
Residential construction	4,686	3,446
Registered training	487	879
Land development	–	10
	5,173	**4,335**

In addition to the interest expense, depreciation and amortisation reported above, impairment losses of $0.432m (2017: $1.413m) were recognised in respect of land stock held on hand and other current assets as at 30 June 2018. These impairment losses were attributable to the following reporting segments:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Segment information (continued)

6.4 Other segment information (continued)

	Impairment losses	
	30 June 2018 $'000	30 June 2017 $'000
Residential construction	–	768
Registered training	–	–
Land development	432	645
Total impairment	**432**	**1,413**

6.5 Revenue by geographical region

The Group operates in one geographical area – Australia. The Group's revenue and profits are all generated from this region.

6.6 Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 30 June 2018 and the year ended 30 June 2017.

7. Interest income

	30 June 2018 $'000	30 June 2017 $'000
Bank deposits	2	1
	2	**1**

8. Finance costs

	30 June 2018 $'000	30 June 2017 $'000
Interest on bank overdrafts, finance leases and loans	1,280	1,728
	1,280	**1,728**

9. Income taxes

9.1 Income tax recognised

	30 June 2018 $'000	30 June 2017 $'000
Current tax		
(Benefit)/expense in respect of the current year	3,431	–
(Benefit)/expense in respect of prior years	(7)	(55)
	3,424	(55)
Deferred tax		
(Benefit)/expense in respect of the current year	(1,423)	299
(Benefit)/expense in respect of prior years	(27)	224
	(1,450)	523
Consolidated income tax expense recognised in the current year	**1,974**	**468**
Income tax expense from continuing operations	2,400	1,309
Income tax (benefit) from discontinued operations	(426)	(841)
	1,974	**468**

The income tax expense can be reconciled to the accounting profit as follows:

Profit before tax from continuing operations	7,167	3,387
Loss before tax from discontinued operations	(1,419)	(2,714)
Profit before tax	**5,748**	**673**
Income tax expense calculated at 30% (2017: 30%)	1,725	202
Effect of executive share based payments non-deductible	99	37
Effect of expenses that are not deductible in determining taxable profit	184	60
	2,008	299
Adjustments recognised in the current year in relation to deferred and current tax of prior years	(34)	169
Income tax expense recognised in profit or loss	**1,974**	**468**
Income tax expense from continuing operations	2,400	1,309
Income tax (benefit) from discontinued operations	(426)	(841)
	1,974	**468**

The tax rate used for the 2018 and 2017 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

9.2 Current tax assets and liabilities

Income tax (payable)/refundable	(3,432)	1,441
	(3,432)	**1,441**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Income taxes (continued)

9.3 Deferred tax balances

	30 June 2018 $'000	30 June 2017 $'000
Amounts recognised in profit or loss		
Deferred tax assets	3,957	5,839
Deferred tax liabilities	(5,107)	(8,439)
	(1,150)	**(2,600)**
Amounts recognised in other comprehensive income		
Deferred tax liabilities	(101)	–
Net deferred tax	**(1,251)**	**(2,600)**

2018	Opening balance $'000	Under/over $'000	Recognised in profit or loss $'000	Recognised in Other compre-hensive Income $'000	Closing balance $'000
Construction contracts income	(7,810)	412	2,929	–	(4,469)
Capitalised courses and product design	(630)	35	(43)	–	(638)
Property, plant, equipment & intangibles	845	(39)	212	–	1,018
Provision for warranty and contract maintenance	1,195	–	(164)	–	1,031
Employee entitlements	1,308	1	(241)	–	1,068
Other	1,082	(29)	(213)	(101)	739
DTA on Losses & Carry Forward Non-Refundable R&D offset	1,410	(353)	(1,057)	–	–
	(2,600)	**27**	**1,423**	**(101)**	**(1,251)**

2017	Opening balance $'000	Under/over $'000	Recognised in profit or loss $'000	Other $'000	Closing balance $'000
Construction Contracts income	(5,844)	(319)	(1,647)	–	(7,810)
Capitalised Courses and Product Design	(253)	25	(402)	–	(630)
Property, Plant, Equipment & Intangibles	444	2	399	–	845
Provision for warranty and contract maintenance	1,256	–	(61)	–	1,195
Employee Entitlements	1,364	24	(80)	–	1,308
Other	882	44	144	12	1,082
DTA on Losses & Carry Forward Non-Refundable R&D offset	–	10	1,346	54	1,410
	(2,151)	**(214)**	**(301)**	**66**	**(2,600)**

10. Discontinued operations

Following a comprehensive review instigated by the Directors on 16 November 2015, the Group announced a plan for the orderly closure of the Madisson business unit of the Group on 21 January 2016 upon completion of the remaining projects. All projects were completed in the previous financial year.

Loss for the year from the Madisson business

	Notes	30 June 2018 $'000	30 June 2017 $'000
Revenue		–	6,194
Expenses		(1,419)	(8,908)
Loss before tax		(1,419)	(2,714)
Attributable income tax benefit		426	841
Loss for the year		**(993)**	**(1,873)**
Statement of Cash Flows from the Madisson business			
Cash flows from operating activities		7	(2,870)
Cash flows from/(used in) investing activities		–	–
Cash flows from financing activities		–	2,875
Net increase in cash and cash equivalents		7	5
Cash and cash equivalents at the beginning of the year		6	1
Cash and cash equivalents at the end of the year		**13**	**6**

11. Expenses for the year

Loss on disposal of property, plant and equipment and intangible assets		(84)	(48)
Marketing and selling expenses		(19,280)	(19,480)
Corporate and administrative expenses		(29,912)	(29,608)
Employee benefits expense		(68,457)	(62,960)
Divestment of Hub Property Advisory Pty Ltd	38	(285)	–
		(118,018)	**(112,096)**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Significant items for the year

	30 June 2018 $'000	30 June 2017 $'000
Costs associated with organisational review and management restructure including settlement of share-based payments	(1,184)	(473)
Transaction costs associated with proposed Scheme of Arrangement (i)	–	(1,817)
Impairment of non-core development land and other current assets	(432)	(1,413)
Total significant items	**(1,616)**	**(3,703)**

(i) On 31 August 2016, the Group announced a Scheme Implementation Agreement with SR Residential Pty Ltd (SR Residential) (which is jointly owned by entities associated with Roche Holdings Pty Ltd and Simonds Family Office Pty Ltd (SFO)) under which it was proposed that SR Residential would acquire all shares in the Company not already owned by associates of the Consortium by way of the Scheme. On 28 November 2016, the Group announced that the Scheme Implementation Agreement has been terminated by mutual agreement of the Group and SR Residential. During this process, the Group has incurred transaction costs of $1.817m for year ended 30 June 2017.

13. Earnings per share

	30 June 2018 Cents per share	30 June 2017 Cents per share
From continuing operations		
Total basic profit per share	3.31	1.44
Total diluted profit per share	3.31	1.44
From continuing and discontinued operations		
Total basic profit per share	2.62	0.14
Total diluted profit per share	2.62	0.14

13.1 Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings are as follows:

	30 June 2018 $'000	30 June 2017 $'000
From continuing operations		
Profit for the year attributable to owners of the Company	4,767	2,078
From continuing and discontinued operations		
Profit for the year attributable to owners of the Company	3,774	205

	Number	Number
Weighted average number of ordinary shares for the purposes of the basic earnings per share	143,841,655	143,841,655

13.2 Diluted earnings per share

	30 June 2018 $'000	30 June 2017 $'000
From continuing operations		
Profit for the year attributable to owners of the Company	4,767	2,078
From continuing and discontinued operations		
Profit for the year attributable to owners of the Company	3,774	205

	Number	Number
Weighted average number of ordinary shares for the purposes of the basic earnings per share	143,841,655	143,841,655
Shares deemed to be issued for no consideration in respect of:		
• Performance rights/options/service rights	–	31,204
Weighted average number of ordinary shares for the purposes of the diluted earnings per share	143,841,655	143,872,859

The following potential ordinary shares are excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

	Number	Number
Options	1,020,576	4,000,000
Performance rights	1,579,623	3,660,683

These shares have been excluded from the diluted earnings per share (EPS) calculation on the basis that the exercise price of the options is higher than the average share price or the performance conditions are yet to be met at the end of the reporting period.

14. Trade and other receivables

	30 June 2018 $'000	30 June 2017 $'000
Current		
Trade receivables [(i)]	34,585	32,191
	34,585	**32,191**
Other receivables	362	499
	34,947	**32,690**

(i) The amounts pertaining to related party receivables are disclosed within note 31.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. Trade and other receivables (continued)

14.1 Trade receivables

The average settlement terms for progress invoices in relation to residential contracts are between 7 and 45 days. The Group has provided fully or written off all receivables that are known to be uncollectable or there is objective evidence that the Group will not be able to collect the outstanding amount. Prior to accepting a new customer for the construction of a dwelling, the Group ensures that appropriate contractual terms are in place with the customer and that the customer has secured financing in advance of the commencement of construction.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated and dwellings constructed for customers serving as a security against the receivable.

14.1.1 Age of receivables from continuing operations that are past due but not impaired

	30 June 2018 $'000	30 June 2017 $'000
46–60 days	917	1,459
61–90 days	1,085	624
91–120 days	424	396
Over 120 days	1,167	2,053
Total	3,593	4,532
Average age (days)	105	110

Average credit terms for customers are 7 to 45 days. Receivables past due but not impaired primarily relate to final settlement payments upon completion of construction and supplier rebates, where terms vary.

15. Inventories

Work in progress on residential construction contracts	38,363	28,226
Speculative and display homes, land stock (i)	31,573	21,319
	69,936	49,545
Provision for impairment of inventories	(2,029)	(1,360)
	67,907	**48,185**

(i) The Group's obligations under the Simonds Homes Display Funds (Note 22) are secured by mortgages over 12 displays homes with a carrying value of $6.648m.

16. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows.

Name	Principle activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2018	2017
Simonds Homes Victoria Pty Ltd	Residential – Victoria	Australia	100%	100%
Simonds Homes NSW Pty Ltd	Residential – NSW	Australia	100%	100%
Simonds Queensland Constructions Pty Ltd	Residential – Queensland	Australia	100%	100%
Simonds SA Pty Ltd	Residential – South Australia	Australia	100%	100%
Simonds WA Pty Ltd	Residential – Western Australia	Australia	100%	100%
Madisson Homes Australia Pty Ltd	Residential – Victoria	Australia	100%	100%
Simonds Personnel Pty Ltd	Payroll service entity	Australia	100%	100%
Simonds Assets Pty Ltd	Asset service entity	Australia	100%	100%
Simonds IP Pty Ltd	Intellectual property service entity	Australia	100%	100%
Simonds Corporate Pty Ltd	Asset service entity	Australia	100%	100%
House of Learning Pty Ltd	Registered training organisation	Australia	100%	100%
City-Wide Building and Training Services Pty Ltd	Registered training organisation	Australia	100%	100%
Jackass Flats Developments Pty Ltd	Land development and sales	Australia	100%	100%
Simonds Land Development Pty Ltd	Land development and sales	Australia	100%	100%
Bridgeman Downs Land Project Pty Ltd	Land development and sales	Australia	100%	100%
Discover Developments Pty Ltd	Land development and sales	Australia	100%	100%
Discover Gisborne Pty Ltd	Land development and sales	Australia	100%	100%
Hub Property Advisory Pty Ltd ATF Hub Property Advisory Unit Trust	Land development and sales	Australia	0%	100%

- Simonds Group Limited is the head entity within the tax consolidated group.
- All Group subsidiaries are members of the tax consolidated group.
- Simonds Group Limited and its subsidiaries have entered into a deed of cross guarantee with Simonds Group Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report.
- No subsidiaries have been acquired or incorporated in the year ended 30 June 2018. Refer to note 38 for information on disposal of subsidiary during the financial year.

The above companies represent a "Closed Group" for the Class Order. The closed Group's Statement of Profit or Loss and Other Comprehensive Income for the year and closed group's Financial Position as at 30 June 2018 are the same as Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year and Consolidated Statement of Financial Position as at 30 June 2018 disclosed on pages 40–41.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. Property, plant and equipment

	Leasehold improvements $'000	Computer equipment $'000	Office furniture & fittings $'000	Display home furniture, fixtures & fittings $'000	Motor vehicles $'000	Plant and equipment $'000	Total $'000
Cost							
Balance at 1 July 2016	3,105	1,930	2,527	783	6,665	159	15,169
Additions	563	258	78	39	975	22	1,935
Disposals	(120)	–	(706)	(134)	(1,383)	–	(2,343)
Balance at 30 June 2017	**3,548**	**2,188**	**1,899**	**688**	**6,257**	**181**	**14,761**
Cost							
Balance at 1 July 2017	3,548	2,188	1,899	688	6,257	181	14,761
Additions	920	491	179	28	682	297	2,597
Reclass	479	(32)	(295)	344	(382)	(114)	–
Disposals	–	(141)	–	(35)	(263)	–	(439)
Balance at 30 June 2018	**4,947**	**2,506**	**1,783**	**1,025**	**6,294**	**364**	**16,919**
Accumulated depreciation							
Balance at 1 July 2016	(520)	(795)	(968)	(178)	(2,786)	(122)	(5,369)
Depreciation expense	(775)	(603)	(457)	(445)	(1,208)	(10)	(3,498)
Disposals/transfers	102	–	616	111	1,155	–	1,984
Balance at 30 June 2017	**(1,193)**	**(1,398)**	**(809)**	**(512)**	**(2,839)**	**(132)**	**(6,883)**
Accumulated depreciation							
Balance at 1 July 2017	(1,193)	(1,398)	(809)	(512)	(2,839)	(132)	(6,883)
Depreciation expense	(866)	(541)	(343)	(291)	(1,157)	(24)	(3,222)
Reclass	(478)	29	78	(125)	382	114	–
Disposals	–	141	–	35	187	–	363
Balance at 30 June 2018	**(2,537)**	**(1,769)**	**(1,074)**	**(893)**	**(3,427)**	**(42)**	**(9,742)**
Net book value							
As at 30 June 2017	**2,355**	**790**	**1,090**	**176**	**3,418**	**49**	**7,878**
As at 30 June 2018	**2,410**	**737**	**709**	**132**	**2,867**	**322**	**7,177**

18. Intangible Assets

	Computer software $'000	Capitalised courses $'000	Goodwill from acquisitions $'000	RTO licence $'000	Capitalised product designs $'000	Total $'000
Cost						
Balance at 1 July 2016	6,248	1,048	2,976	1,245	–	11,517
Additions	366	842	–	–	1,192	2,400
Balance at 30 June 2017	**6,614**	**1,890**	**2,976**	**1,245**	**1,192**	**13,917**
Cost						
Balance at 1 July 2017	6,614	1,890	2,976	1,245	1,192	13,917
Additions	781	487	–	–	1,308	2,576
Disposals	(4,713)	(1)	(373)	–	(154)	(5,241)
Balance at 30 June 2018	**2,682**	**2,376**	**2,603**	**1,245**	**2,346**	**11,252**
Accumulated amortisation						
Balance at 1 July 2016	(5,270)	(380)	–	(1,069)	–	(6,719)
Amortisation expense	(627)	(694)	–	(176)	(25)	(1,522)
Balance 30 June 2017	**(5,897)**	**(1,074)**	**–**	**(1,245)**	**(25)**	**(8,241)**
Accumulated amortisation						
Balance at 1 July 2017	(5,897)	(1,074)	–	(1,245)	(25)	(8,241)
Amortisation expense	(525)	(1,238)	–	–	(262)	(2,025)
Disposal/transfers/impairment	4,681	–	–	–	–	4,681
Balance 30 June 2018	**(1,741)**	**(2,312)**	**–**	**(1,245)**	**(287)**	**(5,585)**
Net book Value						
As at 30 June 2017	**717**	**816**	**2,976**	**–**	**1,167**	**5,676**
As at 30 June 2018	**941**	**64**	**2,603**	**–**	**2,059**	**5,667**

19. Other assets

	30 June 2018 $'000	30 June 2017 $'000
Prepayments	2,176	2,977
Other assets	187	197
	2,363	**3,174**

20. Other financial assets

Current		
Units held in Simonds Land Development Fund	1,197	1,260
	1,197	**1,260**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

21. Trade and other payables

	30 June 2018 $'000	30 June 2017 $'000
Trade payables	54,767	41,716
Construction accruals	8,991	12,553
Goods and services tax payable	1,671	2,212
Other payables and accruals	6,310	4,687
	71,739	**61,168**

22. Borrowings

Current		
Other borrowings	675	401
Commercial bills	–	1,995
Finance lease liability	1,687	1,479
	2,362	**3,875**
Non-current		
Commercial bills	–	4,330
Finance lease liability	736	2,019
Display fund facility	5,000	5,000
	5,736	**11,349**

22.1 Summary of borrowing arrangements

Details of the Group's borrowing facility are as follows:

Facility	Utilised $'000	Unutilised $'000	Interest Charge	Description	Maturity Date
Market Rate Loan	–	4,330	Variable Market Rate	The group's facilities are secured by all Simonds Group Limited corporate entities. Refer to note 40 for extension of the facilities subsequent to 30 June 2018.	25 February 2019
Business Corporate Credit Card Facility	600	–	Corporate Charge Card Facility Interest Rate		
Bank Guarantees	1,652	348	Fixed Market Rate		
Multi Option Facility	–	22,500	Variable Market Rate		
Finance Lease	2,369	1,631	Fixed Market Rate	Asset under finance leases are secured by the assets leased with repayments periods not exceeding 5 years.	
Total	**4,621**	**28,809**			

In addition to the debt facility outlined above, the Group has additional facilities as below:

Facility	Utilised $'000	Unutilised $'000	Interest Charge	Description	Maturity Date
Finance Leases	53	–	Fixed Market Rate	Asset under finance leases are secured by the assets leased. These facilities are held with Westpac Banking Corporation and Global Rental & Leasing Pty Ltd.	Repayment periods are not exceeding 5 years.
Simonds Homes Display Fund	5,000	–	Fixed Interest Rate	The Group entered in to a mortgage facility with Simonds Homes Display Fund with an initial expiry of 15 September 2016. The facility has been extended to 30 September 2019. Facility is secured by first mortgages over a number of display homes of the Group.	30 September 2019
Insurance Premium Funding	675	–	Fixed Interest Rate	The Group entered in to a premium funding contract with BMW Financial Services, which covers various corporate insurances for the period from 30 April 2018 to 30 April 2019.	30 April 2019
Total	**5,728**	–			

23. Provisions

	30 June 2018 $'000	30 June 2017 $'000
Provision for employee benefits (i)	6,696	6,278
Provision for warranty and contract maintenance (ii)	12,433	13,648
Provision for make good (iii)	1,573	941
	20,702	**20,867**
Current	12,497	12,989
Non-current	8,205	7,878
	20,702	**20,867**

(i) The provision for employee benefits represents annual leave and long service leave entitlements accrued and compensation claims made by employees. The measurement and recognition criteria for employee benefits have been included in note 3 of the financial statements.

The current portion of the provision for employee benefits includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave classified as current liabilities to be settled wholly within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement. The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

The following amounts reflect annual leave that is not expected to be taken or paid within the next 12 months:

Leave obligations expected to be settled after 12 months	858	1,124

(ii) The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties related to residential construction. The estimate has been made on the basis of historical warranty trends and may vary as a result of the annual build program, the history of defects relating to materials used or in the nature of services provided.

(iii) Provisions based on the directors' best estimates of the costs required to reinstate the display homes under legislation; or requirement to be at a saleable standard.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

24. Deposits and income received in advance

	30 June 2018 $'000	30 June 2017 $'000
Arising from construction contracts	**20,020**	**13,774**

25. Issued capital

143,841,655 fully paid ordinary shares	12,911	12,911
Less: Treasury shares [(i)]	(7)	–
	12,904	**12,911**

(i) Treasury shares are shares in the Company that are held by the Employee Share Trust for the purpose of further allocation to employees for Performance Rights and Options Plan and shares held by the Employee Share Trust that have been allocated to employees under the Performance Rights and Options Plan but are subject to a disposal restriction.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

	Number of shares		Share capital ($'000)	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Balance at beginning of the period	143,841,655	143,841,655	12,911	12,911
Less: Treasury shares	(24,729)	–	(7)	–
Balance at end of the period	**143,816,926**	**143,841,655**	**12,904**	**12,911**

26. Reserves

	30 June 2018 $'000	30 June 2017 $'000
Share Buy-back Reserve	(7,204)	(7,204)
Share Based Payment Reserve	30,391	30,243
Investment Revaluation Reserve	236	–
	23,423	**23,039**

Share Buy-back Reserve

On 20 August 2015, the Group announced its intention to undertake an on-market share buy-back ("buy-back") to enable the Group to acquire up to a maximum of 7.570m shares within a 12-month period. The buy-back was part of the Group's ongoing capital management strategy and determined by the Directors to be an appropriate use of Group capital resources given current market conditions at the time. The Group bought back 7,570,613 of its issued shares for a total amount of $7.883m. As a result, a reduction in capital of $0.679m was recognised based on an implied value per share of 8.97c and the remaining balance was recorded in the share buy-back reserve.

Share Based Payment Reserve

This reserve is used to recognise the value of equity settled benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Investment Revaluation Reserve

The investment revaluation reserve represents any unrealised gains/(losses) arising on the revaluation of available for sale assets that have been recognised in other comprehensive income.

27. Accumulated losses

	30 June 2018 $'000	30 June 2017 $'000
Balance at the beginning of the year	(39,075)	(39,280)
Profits attributable to owners of the Group (net of tax)	3,774	205
Balance at the end of the year	**(35,301)**	**(39,075)**

28. Dividends paid or payable

During the year, Simonds Group Limited made the following dividend payments:

	Year ended 30 June 2018		Year ended 30 June 2017	
	Cents per share	Total $'000	Cents per share	Total $'000
Final dividend	–	–	–	–

The company's adjusted franking account balance as at 30 June 2018 is $6.522m (2017: $8.061m).

29. Financial Instruments

29.1 Capital risk management

Directors review the capital structure on an ongoing basis. As a part of this review the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues, and the issue or repayment of debt.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22, cash, and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and dividends, as disclosed in notes 25, 27 and 28.

29.2 Financial risk management

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial instruments is governed by the Group's policies which are approved by the directors. The Chief Financial Officer is responsible for managing the Group's treasury requirements in accordance with this policy.

The Group hold the following financial instruments:

	30 June 2018 $'000	30 June 2017 $'000
Financial Assets		
Cash and Cash equivalents	7,010	10,204
Trade and other receivables	34,947	32,690
Available for sale financial assets	1,197	1,260
	43,154	**44,154**
Financial Liabilities		
Trade and other payables	71,739	61,168
Borrowings	8,098	15,224
	79,837	**76,392**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

29. Financial Instruments (continued)

29.2 Financial risk management (continued)

29.2.1 Market risk

i) Interest rate risk management

As at 30 June 2018, the Group had $8.098m debt facilities that have been utilised.

The Group is exposed to interest rate risk as the entities in the Group borrow funds at both fixed and variable interest rates. There is an interest rate exposure for these utilised facilities when they are used during each financial year. (Refer to note 22 for details of these facilities).

A sensitivity analysis has been determined based on the exposure to interest rates at the end of the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 30 June 2018 would decrease/increase by $27,743 (2017: $31,625). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

ii) Price risk

The Group has no foreign exchange exposure or price risk on equity securities.

29.2.2 Credit risk

Credit risk arises from financial assets which comprise cash and cash equivalents, trade and other receivables and the granting of financial guarantees. Exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets as well as in relation to financial guarantees granted.

Construction contracts require the customer to obtain finance prior to starting the build. Contracts for Speculative Housing, Displays and Land require payment in full prior to passing of title to customers. The Group has no significant concentrations of credit risk and does not hold any credit derivatives to offset its credit exposure.

Registered training is delivered under the terms provided by the Department of Education and Early Childhood Development (the Department) in accordance with the Victorian Training Guarantee Program.

At the reporting date there are no significant concentrations of credit risk relating to loans and receivables at fair value through profit or loss. The carrying amount reflected in the statement of financial position represents the Group's maximum exposure to credit risk for such loans and receivables.

29.2.3 Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

i) Financial arrangements

The Group had access to the following debt facilities at the end of the reporting period:

	Utilised		Unutilised		Total	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Expiring within 1 year	2,362	3,875	29,178	–	31,540	3,875
Expiring beyond 1 year	5,736	11,349	–	23,844	5,736	35,193
	8,098	**15,224**	**29,178**	**23,844**	**37,276**	**39,068**

ii) Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities.

The amounts disclosed in the table are the contractual undiscounted cash flows.

Balance due within 12 months equal their carrying balances as the impact of discounting is not significant.

Year ended 30 June 2018	<6 months $'000	6–12 months $'000	>1–5 years $'000	Total $'000
Financial Liabilities				
Finance lease liability	927	759	736	2,422
Simonds Homes Display Fund	–	–	5,000	5,000
Insurance premium funding	–	676	–	676
	927	**1,435**	**5,736**	**8,098**

Year ended 30 June 2017				
Financial Liabilities				
Finance lease liability	809	670	2,019	3,498
Borrowings	985	1,010	4,330	6,325
Simonds Homes Display Fund	90	–	5,000	5,090
Other borrowings	401	–	–	401
	2,285	**1,680**	**11,349**	**15,314**

iii) Fair value of financial instruments

The Group's investment in the land fund and other financial instruments were measured at fair value at the end of each reporting period. The following table gives information about how the fair value of this financial asset is determined:

	Fair value as at				
Financial assets	30 June 2018 $'000	30 June 2017 $'000	Fair value hierarchy	Valuation technique(s)	Key input
Investment in units in Simonds Land Development Fund (i)	1,197	1,260	Level 3	Income Approach	Present value of expected revenue and cashflow derived from the ownership of the holding units

(i) Part of this asset was sold during the current financial year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30. Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the Company and the Group is set out below:

	30 June 2018 $	30 June 2017 $
Short-term employee benefits	2,646,201	1,641,167
Post-employment benefits	137,763	101,244
Other long-term benefits	67,350	37,478
Termination benefits	464,891	–
Share-based payments	195,751	116,374
	3,511,956	**1,896,263**

31. Related party transactions

31.1 Trading Transactions

During the year, group entities entered into the following transactions with related parties which are not members of the Group.

	Sale of goods		Leases and services rendered		Non-cash remuneration	
	30 June 2018 $	30 June 2017 $	30 June 2018 $	30 June 2017 $	30 June 2018 $	30 June 2017 $
Vallence Gary Simonds and related entities:						
Properties leased on an arms-length basis	–	–	267,192	522,485	–	–
Services received from OZSoft Solutions Pty Ltd (VETrack) and RTOMS Pty Ltd[1]	–	–	–	286,198	–	–
Consulting expense incurred during the year	–	–	71,303	–	–	–
Remuneration for employee services	–	–	130,644	96,480	–	–
Car Park provided	–	–	–	–	6,183	–
	–	–	469,139	905,163	6,183	–
Leon Gorr and related entities:						
Legal services provided by HWL Ebsworth Lawyers	–	–	–	83,285	–	–
	–	–	–	83,285	–	–
Matthew Chun and related entities:						
Construction of a residential home provided on an arms-length basis	–	683,400	–	–	–	–
	–	683,400	–	–	–	–

	Sale of goods		Leases and services rendered		Non-cash remuneration	
	30 June 2018 $	30 June 2017 $	30 June 2018 $	30 June 2017 $	30 June 2018 $	30 June 2017 $
John Thorburn and related entities:						
Lease of display home on an arms-length basis	–	–	261,000	152,250	–	–
	–	–	261,000	152,250	–	–
Total	**–**	**683,400**	**730,139**	**1,140,698**	**6,183**	**–**

1. Related entities of Vallence Gary Simonds sold OZSoft Solutions Pty Ltd (VETrack) and RTOMS Pty Ltd in May 2017. From this date these companies are no longer considered related parties.

At 30 June 2018 there were no balances outstanding from related parties (2017: nil).

31.2 Loans to related parties

During the year ended 30 June 2018 there were no loans to related parties outside the Group (2017: nil).

Balances between the Company and its subsidiaries, which are related parties of the Company, have been eliminated upon consolidation and disclosed in this note.

31.3 Other related party transactions

Other related party transactions include the salaries and other benefits paid to directors and other key management personnel. These are in the ordinary course of business.

On 31 August 2016, The Group announced the Scheme Implementation Agreement with SR Residential Pty Ltd (SR Residential) (which is jointly owned by entities associated with Roche Holdings Pty Ltd and Simonds Family Office Pty Ltd (SFO)) under which it was proposed that SR Residential would acquire all shares in the Company not already owned by associates of the Consortium by way of the Scheme.

On 28 November 2016, the Group announced that the Scheme Implementation Agreement had been terminated by mutual agreement of the Group and SR Residential. During this process, the Group has incurred transaction costs of $1.817m (refer to note 12) disclosed as a significant item in the expenses for the year ended 30 June 2017.

32. Share based payments

32.1 Share based payments

Employee share plan

A range of different employee share scheme (ESS) interests were created as part of the Simonds Group Employee Share Plan. The share plan has been created to promote employee share ownership amongst staff members and to encourage retention and appropriate reward for executives and employees.

Share based payments made to key management personnel and other employees amounted to $0.196m (2017: $0.116m).

2,338,710 cash rights (2017: nil) were granted to 6 senior executives, as at 30 June 2018, 2,016,129 cash rights remain. No performance rights (2017: 3,406,800 performance rights) were granted in 2018 (2017: 10 senior executives). As at 30 June 2018, performance rights remaining on issue are: FY17: 1,438,100 and FY16: 141,523. No options were granted (2017: 4,000,000) during the period. As at 30 June 2018, 1,020,576 options remain.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

32. Share based payments (continued)

32.1 Share based payments (continued)

Employee share plan (continued)

Incentives	Financial Year	Tranche	Grant Date	Fair Value at Grant Date	Vesting Date	Other Vesting Condition
Cash settled	FY18	Tranche 1	4 Dec '17	$0.19	30 Sep '20	Market (1),(4)
	FY18	Tranche 2	4 Dec '17	$0.30	30 Sep '20	Non-market (1),(5)
Performance rights	FY17	Tranche 1	31 Jan '17	$0.23	30 Sep '19	Market (2), (4)
	FY17	Tranche 2	31 Jan '17	$0.35	30 Sep '19	Non-market (2), (5)
	FY16	Tranche 1	30 Nov '15	$0.31	31 Aug '18	Market (3), (4)
	FY16	Tranche 2	30 Nov '15	$0.75	31 Aug '18	Non-market (3), (5)
Options	FY17	Options	31 Jan '17	$0.11	30 Sep '19	Non-market vesting only (5)

Notes:

(1) Gateway Hurdle Condition exists whereby FY18 Cash Rights may not vest unless the individual remains employed up to and including 30 September 2020.

(2) Gateway Hurdle Condition exists whereby FY17 Performance Rights may not vest unless the individual remains employed up to and including 30 September 2019.

(3) Gateway Hurdle Condition exists whereby FY16 Performance Rights may not vest unless the individual remains employed up to and including 31 August 2018.

(4) Vesting condition linked to the Group's Total Shareholder Return (TSR) and the percentile ranking against the constituent companies within the S&P/ASX Small Ordinaries Index.

(5) Vesting condition linked to compound annual growth rate in Earnings Per Share (EPS) where EPS is calculated based on Net Profit Before Tax for the relevant period with the specific EPS methodology to be determined by the board.

The following table outlines the share-based expense (excluding forfeitures and lapses) under the management incentive and employee share plan for the year ended 30 June 2018:

	30 June 2018 $'000	30 June 2017 $'000
Employee share plan		
Share based expense (excluding forfeitures)	832	229
	832	**229**

32.2 Fair value of performance rights, service rights and options granted in the year

Cash rights subject to market based vesting conditions are valued using a Monte Carlo based simulation model (applying a Black-Scholes framework).

For performance rights subject to non-market vesting conditions the FY17 and FY16 performance rights (Tranche 2) the Black Scholes Pricing Model was used to value the rights at grant date, while FY15 (Tranche 2 and Tranche 3) Binominal Approximation Option Valuation Model was used to value the rights at grant date. FY17 EPS Options has been valued at grant date using the Black Scholes Model. Expected volatility is estimated using the daily rolling three-year standard deviation of a relevant Peer Group. The risk free rate is derived from the average of the 3 and 4-year Commonwealth Treasury Bond Rate. This yield was converted to a continuously-compounded rate for the purposes of the rights valuation.

	Fair value model inputs and assumptions					
	Fair value at grant date	Exercise Price	Expected life of instruments (days)	Expected volatility	Expected dividend yield	Risk – free rate
FY18 Cash rights:						
Tranche 1[1]	$0.19	$0.00	1,097	74%	0.0%	2.03%
Tranche 2[2]	$0.30	$0.00	1,096	74%	0.0%	2.01%
FY17 Performance rights:						
Tranche 1	$0.23	$0.00	972	50%	5.5%	1.91%
Tranche 2	$0.35	$0.00	972	50%	5.5%	1.91%
CEO Options:						
EPS	$0.11	$0.40	972	50%	5.5%	2.06%
FY16 Performance rights:						
Tranche 1	$0.31	$0.00	1,004	45%	6.0%	2.11%
Tranche 2	$0.75	$0.00	1,004	45%	6.0%	2.11%
FY15 Performance rights:						
Tranche 1	$1.03	$0.00	1,018	40%	4.92%	2.57%
Tranche 2	$1.55	$0.00	1,018	40%	4.92%	2.57%
Tranche 3	$1.55	$0.00	1,018	40%	4.92%	2.57%

1. The fair value at 30 June 2018 is $0.23.
2. The fair value at 30 June 2018 is $0.36.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

32.3 Movements in performance rights, service rights and options during the year

The following reconciles the cash rights, performance rights and option rights outstanding at the beginning and end of the financial year:

		Opening balance	Granted during the year		Vested during the year		Forfeited during the year		Closing balance
2018	**Financial Year Issued**	**Number of rights**	**Number of rights**	**Weighted average fair value**	**Number of rights**	**Weighted average fair value**	**Number of rights**	**Weighted average fair value**	**Total number of rights**
Cash rights									
Tranche 1	FY2018	–	1,169,357	$0.23	–	–	161,291	$0.23	1,008,066
Tranche 2	FY2018	–	1,169,353	$0.36	–	–	161,290	$0.36	1,008,063
Performance rights									
Tranche 1	FY2017	1,703,403	–	–	–	–	984,352	$0.23	719,051
Tranche 2	FY2017	1,703,397	–	–	–	–	984,349	$0.35	719,048
Tranche 1	FY2016	70,762	–	–	–	–	–	–	70,762
Tranche 2	FY2016	70,761	–	–	–	–	–	–	70,761
Tranche 1	FY2015	37,453	–	–	–	–	37,453	$1.03	–
Tranche 2	FY2015	37,453	–	–	–	–	37,453	$1.55	–
Tranche 3	FY2015	37,454	–	–	37,454	$1.55	–	–	–
CEO Options									
EPS	FY2017	4,000,000	–	–	–	–	2,979,424	$0.11	1,020,576
Total		**7,660,683**	**2,338,710**	**$0.29**	**37,454**	**$1.55**	**5,345,612**	**$0.20**	**4,616,327**

2017									
Performance rights									
Tranche 1	FY2017	–	1,703,403	$0.23	–	–	–	–	1,703,403
Tranche 2	FY2017	–	1,703,397	$0.35	–	–	–	–	1,703,397
Tranche 1	FY2016	283,048	–	–	141,524	$0.31	70,762	$0.31	70,762
Tranche 2	FY2016	283,044	–	–	141,522	$0.75	70,761	$0.75	70,761
Tranche 1	FY2015	112,359	–	–	37,453	$1.03	37,453	$1.03	37,453
Tranche 2	FY2015	112,359	–	–	37,453	$1.55	37,453	$1.55	37,453
Tranche 3	FY2015	112,362	–	–	37,454	$1.55	37,454	$1.55	37,454
Service rights									
Tranche 2	FY2015	84,261	–	–	67,409	$1.61	16,852	$1.61	–
CEO Options									
EPS	FY2017	–	4,000,000	$0.11	–	–	–	–	4,000,000
Total		**987,433**	**7,406,800**	**$0.19**	**462,815**	**$0.89**	**270,735**	**$0.95**	**7,660,683**

Cash rights outstanding at the end of the current financial year had an exercise price of $nil (2017: nil). Performance rights outstanding at the end of the current financial year had an exercise price of $nil (2017: $nil), and the CEO options outstanding at the end of the current financial year had an exercise price of $0.40 (2017: $0.40).

The weighted average contractual life of cash rights was 1,097 days (2017: nil). The weighted average contractual life of performance rights was 975 days (2017: 973 days) and the weighted average contractual life of CEO options was 972 days (2017: 973 days).

32.4 Performance and service rights vested during the year

Performance rights of 37,454 vested during the year ended 30 June 2018 (2017: 395,406) as a result of the organisational review and management restructure.

32.5 Performance and service rights forfeited during the year

There were 322,581 (2017: nil) cash rights, 2,043,607 (2017: 16,852) performance rights and 2,979,424 (2017: nil) options forfeited during the year.

32.6 Share based payments reserve

	30 June 2018 $'000	30 June 2017 $'000
Balance at the beginning of the year	30,243	30,248
Amounts expensed	832	229
Performance rights vested	(11)	(110)
Performance rights forfeited	(346)	(80)
Performance options forfeited	(328)	–
Service rights vested	–	(19)
Service rights forfeited	–	(25)
Balance at the end of the year	**30,390**	**30,243**

33. Commitments for expenditure

Lease commitments		
Non – cancellable operating lease payments		
No longer than 1 year	10,004	9,543
Longer than 1 year and not longer than 5 years	11,895	10,904
	21,899	**20,447**

The Group has no capital expenditure commitments. Lease commitments relate primarily to office leases, display home leases and information technology leases. The operating lease expense for the year ended 30 June 2018 is $8.145m (2017: $8.315m).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

34. Auditor's remuneration

	30 June 2018 $	30 June 2017 $
Audit or review of financial statements	264,500	345,600
Non – audit services – corporate advisory services	–	113,874
Tax services	136,691	249,647
	401,191	**709,121**

The Group's auditors are Deloitte Touché Tohmatsu.

35. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	Notes	30 June 2018 $'000	30 June 2017 $'000
Cash and bank balances		7,010	10,204
		7,010	**10,204**

35.1. Reconciliation of profit for the year to net cash flows from operating activities

	Notes	30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities			
Net profit after tax for the year		**3,774**	**205**
Add/(deduct):			
Income tax expense recognised in profit or loss		1,974	468
Finance costs recognised in profit or loss		1,280	1,728
Interest received		(2)	(1)
Loss on disposal of Hub	38	285	–
Impairment of non-core development land and other current assets	12	432	645
Management incentive and share based payments		(147)	(5)
Depreciation and amortisation of non-current assets		5,247	5,020
		12,843	8,060
Movements in working capital			
(Increase)/decrease in trade and other receivables		(2,258)	10,941
(Increase)/decrease in inventories		(19,722)	780
Decrease in other assets		1,211	208
Increase/(decrease) in trade and other payables		16,628	(13,172)
Increase/(decrease) in provisions		(165)	(669)
Cash generated by operating activities		8,537	6,148
Interest paid		(1,278)	(1,728)
Income taxes refunded		1,441	2,648
Net cash generated from operating activities		**8,700**	**7,068**

35.2. Non-cash transactions

The Group acquired $2.230m of equipment under finance leases in 2018 (2017: $2.168m). The additions are non-cash and not included within investing activities in the consolidated statement of cash flows.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

36. Parent entity information

The parent entity is Simonds Group Limited. The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements.

	30 Jun 2018 $'000	30 Jun 2017 $'000
Statement of financial position		
Cash at bank	1	–
Other financial assets	2,294	840
Income tax receivables	1,038	–
Total assets	**3,333**	**840**
Intercompany loan payable	1,618	2,722
Trade and other payables	689	575
Total liabilities	**2,307**	**3,297**
Net assets/(liabilities)	**1,026**	**(2,457)**
Issued capital	12,904	12,911
Reserves	(5,730)	(5,877)
Accumulated losses	(6,148)	(9,491)
Total equity/(deficit)	**1,026**	**(2,457)**
Income statement		
Subsidiary receivable recovery	3,638	–
Operating expense	(295)	(2,452)
Loss for the year	**3,343**	**(2,452)**
Other comprehensive income, net of income tax		
Items that will not be reclassified subsequently to profit or loss:	–	–
Items that may be reclassified subsequently to profit or loss:	–	–
Total comprehensive loss for the year	**3,343**	**(2,452)**

37. Business combinations

The Group has made no acquisitions during the financial year ended 30 June 2018.

38. Disposal of subsidiary

On 19 December 2017, the Group disposed of Hub Property Advisory Pty Ltd, which carried out the project management service business.

38.1 Consideration received

	30 June 2018 $'000
Consideration received in cash and cash equivalents	147
Deferred consideration	41
Total Consideration	**188**

38.2 Net assets of Hub Property Advisory Pty Ltd at the date of disposal

Current Assets	
Cash and cash equivalents	7
Trade receivables	148
Other assets	18
Deferred tax assets	7
Non-Current Assets	
Goodwill	373
Current Liability	
Trade and payables	(7)
Provisions	(73)
Net assets disposed	**473**

38.3 Loss on disposal of Hub Property Advisory Pty Ltd

Consideration	188
Net assets disposed	(473)
Loss on disposal	**(285)**

38.4 Net cash inflow on disposal of Hub Property Advisory Pty Ltd

Consideration received in cash and cash equivalents	147
Less cash and cash equivalent balance disposed	(7)
	140

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

39. Contingent liabilities and contingent assets

Contingent liabilities	30 June 2018 $'000	30 June 2017 $'000
Other guarantees [(i)]	1,652	1,465

(i) Represents guarantees for property rentals, project contracts, crossing deposits and merchant facility. The Group has in place a guarantee with a Significant Investor Fund for the acquisition and leaseback of displays.

Litigation

There are a small number of legal matters relating to the construction of residential dwellings and personal injury claims from employees, contractors or the public that are the subject of litigation or potential litigation. A provision is raised in respect of claims where an estimate may be reliably established, and legal or other advice indicates that it is probable that the Group will incur costs either in progressing its investigation of the claim or ultimately in settlement.

Other contracts

The Group has entered into contracts to acquire properties. In the normal course of business, third parties will be assigned to purchase the property, however if no third party can be reassigned, then the Group faces an exposure of $2.076m (2017: $0.906m).

40. Subsequent events

In August 2018 Simonds signed a revised facility agreement to extend the existing borrowing facilities for 3 years to September 2021. There have been no significant changes to the facility other than an extension of the term.

Other than noted above, there have been no events that have occurred subsequent to the reporting date that have significantly affected or may significantly affect the Group's operations, results or state of affairs in future years.

SHAREHOLDER INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 10 September 2018 (Reporting Date).

Corporate governance statement

The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company. In accordance with ASX Listing Rule 4.10.3, the Corporate Governance Statement will be available on Simonds website www.simondsgroup.com.au and will be lodged with the ASX at the same time that this Annual Report is lodged with the ASX.

Distribution of equity securities

The distribution and number of holders of equity securities on issue in the Company as at the Reporting Date, and the number of holders holding less than a marketable parcel of the Company's ordinary shares, based on the closing market price as at the Reporting Date, is as follows:

	Class of equity security					
	Ordinary shares		Performance rights		Performance options	
Holding	**Holders**	**No. of shares**	**Holders**	**No. of performance rights**	**Holders**	**No. of performance options**
1 – 1,000	515	210,845	–	–	–	–
1,001 – 5,000	87	278,612	–	–	–	–
5,001 – 10,000	88	674,434	–	–	–	–
10,001 – 100,000	185	6,893,372	–	–	–	–
100,001 and over	63	135,784,392	5	1,579,623	1	1,020,576
Total	**938**	**143,841,655**	**5**	**1,579,623**	**1**	**1,020,576**

There were 283 holders of less than a marketable parcel of ordinary shares ($500).

SHAREHOLDER INFORMATION (CONTINUED)

Twenty largest quoted equity security holders

The Company only has one class of quoted securities, being ordinary shares. The names of the twenty largest holders of ordinary shares, the number of ordinary shares and the percentage of capital held by each holder is as follows:

Name	Number held	Percentage of issued shares
Simonds Custodians Pty Ltd	32,800,020	22.80%
McDonald Jones Homes	28,480,647	19.80%
FJP Pty Ltd	22,370,660	15.55%
Simonds Constructions Pty Ltd	21,485,018	14.94%
National Nominees Limited	6,425,527	4.47%
Moat Investments Pty Ltd	2,089,560	1.45%
J P Morgan Nominees Australia	1,967,600	1.37%
UBS Nominees Pty Ltd	1,962,614	1.36%
Citicorp Nominees Pty Limited	1,626,971	1.13%
Madisson Constructions Pty Ltd	1,572,678	1.09%
Brispot Nominees Pty Ltd	1,164,414	0.81%
Poal Pty Ltd	1,000,000	0.70%
Mast Financial Pty Ltd	1,000,000	0.70%
Mr Mark Vujovich	880,000	0.61%
Mr Robert Stubbs	756,384	0.53%
Mr Hoang Huy Huynh	600,000	0.42%
Luton Pty Ltd	600,000	0.42%
Jet Invest Pty Ltd	547,212	0.38%
Mr Philip Williams	500,000	0.35%
Intergrala Pty Ltd	425,000	0.30%
	128,254,305	**89.16%**
Other shareholders	15,587,350	10.84%
Total shareholders	**143,841,655**	**100.00%**

SHAREHOLDER INFORMATION (CONTINUED)

Substantial Shareholders

As at the Reporting Date, the names of the substantial holders of Simonds and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to Simonds, are as follows:

Name	Number held	Percentage of issued shares
Vallence Gary Simonds	56,138,895	39.03%
McDonald Jones Homes Pty Ltd	28,480,647	19.80%
F.J.P. Pty Ltd	22,370,660	15.55%
Total	**106,990,202**	**74.38%**

Voting Rights

The voting rights attaching to each class of equity security are set out as follows:

Ordinary Shares

At a general meeting of Simonds, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held.

Performance Rights

Performance rights do not carry any voting rights.

Unquoted equity securities

1,579,623 unlisted performance rights have been granted to 5 people and 1,020,576 unlisted performance options have been granted to 1 person. There are no people who hold 20% or more performance rights that were not issued or acquired under an employee incentive scheme.

On-market buy-back

The Company is not currently conducting an on-market buy-back.

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CORPORATE DIRECTORY

Directors

Iain Kirkwood (Independent, Non-Executive Director and Chairman)
Kelvin Ryan (Chief Executive Officer and Managing Director)
Neil Kearney (Independent, Non-Executive Director and Chair of Audit and Risk Committee)
Delphine Cassidy (Independent, Non-Executive Director and Chair of Nomination and Remuneration Committee)
Rhett Simonds (Non-Executive Director)
Scott Mahony (Non-Executive Director)
Piers O'Brien (Non-Executive Director)
Mark Simonds (Executive Director)

Company Secretary

Donna Abu-Elias

Notice of annual general meeting

The details of the annual general meeting of Simonds Group Limited are:

Date: 21 November 2018
Time: 11:00am (Melbourne time)
Address: The Pullman Melbourne Albert Park, 65 Queens Road, St Kilda, Melbourne, VIC 3004

Registered office

Level 4, 570 St Kilda Road, Melbourne, VIC 3004
Postal Address: Locked Bag 4002, South Melbourne, VIC 3205

Telephone: +61 3 9682 0700
ABN 54 143 841 801
Email: company.secretary@simonds.com.au

Share register

Boardroom Pty Ltd

Level 12, 255 George Street, Sydney, NSW 2000
Postal Address: GPO Box 3993, Sydney, NSW 2001

Telephone: 1300 737 760
International: +61 2 9290 9600
Email: simonds@boardroomlimited.com.au

Auditor

Deloitte Touche Tohmatsu

550 Bourke Street, Melbourne, VIC 3000

Stock exchange listing

Simonds Group Limited shares are listed on the Australian Securities Exchange (ASX code: SIO)

Corporate website

simondsgroup.com.au

www.colliercreative.com.au #SGL0005

Simonds Group